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REPARATION COMMISSION.

XII.

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Report of the Agent-General for Reparation Payments

(June 15th, 1926).

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REPORT

OF THE

AGENT GENERAL

FOR

REPARATION PAYMENTS

June 15, 1926

BERLIN

REPORT

OF THE

AGENT GENERAL

FOR

REPARATION PAYMENTS

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Berlin, June 15, 1926.

To the Reparation Commission.

Sirs:

I have the honor to present herewith an interim Report, as Agent General for Reparation Payments, with respect to the execution of the Experts' Plan during the nine months of the second Annuity year which have already elapsed.

It is the purpose of this Report to give the latest available figures affecting the administration of the Plan during the second year, and to indicate in a preliminary way the development of economic and financial conditions in Germany. It is not the intention to undertake at this time any comprehensive review of the operation of the Plan as a whole, or even to attempt any general examination of the second Annuity year. In the nature of things, that must wait until after the end of the year and until more information is available as to the general course of events. Enough of the year, however, has passed to make it desirable to have current figures in the various fields affecting the operation of the Plan and to take note of the more significant developments that have already occurred. In the field of reparation payments itself the figures are now at hand for the first nine months of the second Annuity year, ended May 31, 1926. Since the last Report, moreover, the German Government has completed, on March 31, 1926, its financial year 1925-1926, and in connection with its budget for the current year has recently adopted a significant programme of tax reform. The German Railway Company has completed its first business year, ended December 31, 1925, and has within the past few weeks established its balance sheet and accounts for the year. The Reichsbank has consolidated its position, and the stability of the German currency stands fully assured. In all its relations the Plan has been functioning actively and normally.

The second Annuity year, like the first, forms part of what the Plan describes as the preliminary period of economic rehabilitation, and the Annuity payable by Germany is accordingly fixed at slightly less than half of the full standard Annuity. But in

the second year, as distinguished from the first, the entire burden of the payments falls on the German economy, in the form of charges on the German budget and on the German railroads and industry. The second year comes at a time when Germany is still passing through a searching process of readjustment. This process began during the first Annuity year, and even then, as was pointed out in the previous Report, it had produced in some directions "conditions approaching crisis, which must properly be regarded as inevitable phases of the return to stable conditions and as marking a further stage of readjustment". Shortly afterwards, with the winter of 1925-1926, the crisis became more severe and at the same time more general in its scope. As spring progressed the more serious aspects moderated and in certain branches of industry activity increased; at the same time credit conditions turned more nearly normal than at any time since stabilization. Through the entire period Germany has kept financially sound, and some tendency toward recovery is now beginning to appear.

I. The Administration of the Plan.

The execution of the Plan has proceeded normally during the second Annuity year. Germany has made regularly and punctually the payments required of her, and the transfers to the creditor Powers have gone forward currently and without disturbance to the exchange.

a. The reparation payments received from Germany.

Germany has paid during the first nine months of the second Annuity year an aggregate of 821,425,066.29 gold marks on account of the second Annuity, and has made the payments promptly when due, in accordance with the detailed arrangements which were agreed upon before the year began.

(1) *The provisions of the Plan.*—The second Annuity payable by Germany under the terms of the Experts' Plan amounts in the aggregate to 1,220,000,000 gold marks, consisting of (1) the year's interest on the reparation bonds of the German Railway Company, to the amount of 595,000,000 gold marks; (2) the first payment of interest on the German Industrial debentures, amounting to 125,000,000 gold marks for the year; (3) a contribution from the German budget, in the amount of 250,000,000 gold marks; and (4) a payment of 250,000,000 gold marks from the yield of the transport tax. In connection with these last two items, the Plan assumed that before the end of the second year the German Government would be in effective possession of 500,000,000 gold marks as its share of the proceeds of the sale to the public of the preference shares of the German Railway Company, and provided that, if necessary, recourse might be had to an appropriate internal loan for the purpose of raising the prescribed contributions. In fact, however, an arrangement was concluded between the German Government and the Railway Company whereby the latter issued to the German Government the first 500,000,000 gold marks, nominal amount, of its preference shares in satisfaction of the Government's claim to share in the proceeds of the sale of

preference shares, subject to the right of the Railway Company to re-obtain possession of the shares for the purpose of sale to the public.

The composition of the second Annuity, as compared with the Annuities for the successive years of the Plan, is shown in graphic form in the statement which is annexed to this Report as Exhibit I.

(2) *The payments received.*—The payments received from Germany during the period from September 1, 1925, to May 31, 1926, may be summarized as follows:

	Gold marks
Interest on German Railway bonds.....	400,000,000.00
Budget contribution	190,000,000.00
Interest on German industrial debentures....	62,500,000.00
Transport tax	168,925,066.29
Total	821,425,066.29

The previous Report has described the arrangements made for the payment of the second Annuity, and it is unnecessary here to restate them. In actual practice, the arrangements have operated in an orderly and effective way. The German Railway Company has made its payments monthly, on the first day of each month, beginning with October 1, 1925, each time in the amount of 50,000,000 gold marks, less the prescribed discount of 6 per cent on advance payments. The first payment of interest on the German industrial debentures, to the amount of 62,500,000 gold marks, was made when due on April 1, 1926. The German Government has also made the regular monthly payments on account of the budget contribution, paying 30,000,000 gold marks on September 15, 1925, and 20,000,000 gold marks on the 15th of each succeeding month. The payments on account of the transport tax have been made on behalf of the Government by the German Railway Company on the 21st of each month except April, in accordance with the agreed schedule of payments. The transport tax payments each month depend upon the actual tax collections in respect to traffic of the preceding month, and therefore vary from month to month. In the early months of 1926, owing to the depression of railway traffic, the receipts fell below the estimates, but more recently there has been an improvement and the indications now are that the year's collections will be fully adequate to cover the payments still remaining to be made.

b. The payments made by the Agent General.

In addition to the actual receipts of the first nine months of the second Annuity year, there has been available for expenditure during the period under review the unexpended balance at August 31, 1925, to the amount of 107,013,270.89 gold marks. With this balance in hand, and after taking into account interest earned on cash balances and deducting sundry exchange differences and the discount paid on the advance payments of railway interest, the total fund available for distribution during the period from September 1, 1925, to May 31, 1926, amounted to 924,248,912.52 gold marks. The actual distribution of the payments during this period is summarized below, and it appears in somewhat further detail in the chapter about the work of the Transfer Committee.

(1) *Basis of distribution.*—The service of the German External Loan is a first charge on the Annuities, according to the terms of the London Agreement, and the Finance Ministers' Agreement of January 14, 1925, provided for certain other charges coming after the service of the Loan, to be paid out of the Annuities before calculating the shares of the Powers. The shares of the Powers themselves include not merely their several shares of reparations, as divided according to the so-called Spa percentages, but also their respective allowances on account of restitution, army costs, both current and in arrears, the allotments for the Belgian war debt, and the special share allotted to the United States of America. The distribution of the funds available for expenditure therefore depends, first, on the determination of the various prior charges, and, second, on the shares of the various Powers. It is further to be noted that out of the funds available for expenditure during the period September 1, 1925, to May 31, 1926, a portion represents unexpended balances remaining over from the first Annuity, as distinguished from the funds made available by way of distribution of the second Annuity.

A table showing the revised distribution of the second Annuity, based on the latest information available, is attached to this Report as Exhibit II.

(2) *The distribution of the payments.*—The interim accounts of the Agent General for Reparation Payments for the first nine months of the second Annuity year, in the form of a Balance Sheet as of May 31, 1926, and a Statement of Receipts and Payments for the period September 1, 1925, to May 31, 1926, are attached to this Report as Exhibits III and IV, respectively. There are also attached two further statements showing the distribution of the payments in greater detail; one, appearing as Exhibit V, which gives the distribution among the Powers of the amounts available for expenditure during the nine months' period, and the other, appearing as Exhibit VI, which analyses the payments and outstanding liabilities according to categories of expenditure. The accounts, both of receipts and payments, are kept in gold marks, on the basis prescribed in the London Agreement.

(3) *The use of the funds by the creditor Powers.*—The several creditor Powers have utilized the funds available to them for expenditure during the first nine months of the second Annuity year, in the following manner:

1. *France.*—The funds made available to France amounted to about 461,730,000 gold marks, of which 55,120,000 gold marks represented a carry-over from the first Annuity. Of this sum France has taken about 51,391,000 gold marks for the expenses of her army of occupation in the Rhineland, and about 33,825,000 gold marks through the operation of her Reparation Recovery Act, receiving the equivalent in francs at the Banque de France. In addition, the French Government has received the equivalent of about 5,357,000 gold marks as a cash transfer in the form of a payment to the German Government for its account,

covering an item of 5,007,000 gold marks owing upon liquidation of the accounts of the Franco-Belgian railway Régie, and another item of 350,000 gold marks owing for services rendered by the German Government prior to September 1, 1924. Of the remainder of the French share, about 202,764,000 gold marks went to pay for deliveries of coal, coke and lignite, and for transport thereon; about 39,697,000 gold marks for chemical fertilisers; about 12,732,000 gold marks for agricultural products and live stock; about 12,771,000 gold marks for timber; 5,121,000 gold marks for sugar; and about 67,710,000 gold marks for miscellaneous payments and deliveries of great variety. These items aggregate 431,368,000 gold marks, representing accounts paid or in the course of payment. The balance remaining to the credit of France was 30,362,000 gold marks, against which about 24,695,000 gold marks were held committed under approved contracts for deliveries in kind but had not actually been called for on May 31, 1926, chiefly owing to delays in delivery.

To summarize, out of the total French share of 461,730,000 gold marks, about 456,063,000 gold marks in the aggregate have either been paid out or effectively committed during the period September 1, 1925-May 31, 1926, leaving a free balance of only 5,667,000 gold marks, which is being currently utilized.

2. *The British Empire.*—The British share during the first nine months aggregated about 166,384,000 gold marks, including 546,000 gold marks carried over as an unexpended balance from the first Annuity. The British Government has taken 15,537,000 gold marks up to this time for the expenses of its army of occupation in the Rhineland, and a further sum of 313,000 gold marks as a cash transfer, for payment to the German Government in settlement for deliveries made prior to September 1, 1924. Practically the entire balance of the British share, that is to say, 150,532,000 gold marks has been paid through the operation of the Reparation Recovery Act, in the form of its sterling equivalent at the Bank of England, leaving an unexpended balance on May 31, 1926, of only 2,000 gold marks.

3. *Italy.*—The share available to Italy during the nine months has amounted to about 65,197,000 gold marks, of which 5,729,000 gold marks represented an unexpended balance from the first Annuity. The Italian Government has utilized the great bulk of its credit for deliveries in kind, 47,952,000 gold marks having gone for coal and its transport; 2,767,000 gold marks for dyestuffs and pharmaceutical products; and 6,756,000 gold marks for miscellaneous deliveries in kind. These items left an unexpended balance of 7,722,000 gold marks, out of which 1,508,000 gold marks were held committed under approved contracts, leaving a free balance of about 6,214,000 gold marks available for current utilization.

4. *Belgium.*—The Belgian share has amounted to about 98,581,000 gold marks, including about 20,437,000 gold marks carried over from the first Annuity. Of this sum, Belgium has used about 8,110,000 gold marks for the expenses of its army of occupation in the Rhineland. The remainder of the Belgian share has been almost entirely absorbed by deliveries in kind, about 46,079,000 gold marks having gone to pay for coal and its transport; about 2,062,000 gold marks for coal by-products; 2,935,000 gold marks for chemical fertilisers; 3,926,000 gold marks for dyestuffs and pharmaceutical products; 3,880,000 gold marks for timber; and about 23,602,000 gold marks for miscellaneous payments and deliveries of great variety. These expenditures amounted to 90,594,000 gold marks and left an unexpended balance of 7,987,000 gold marks. Of this balance the sum of 5,827,000 gold marks was held committed on May 31, 1926, under approved contracts for deliveries in kind, but had not yet been called for, chiefly owing to delays in delivery. This means that out of a total credit of about 98,581,000 gold marks, Belgium has utilized during the period from September 1, 1925, to May 31, 1926, about 96,421,000 gold marks for actual payments and deliveries, or effective commitments, leaving a current balance of about 2,160,000 gold marks.

5. *Serb-Croat-Slovene State.*—The Serbian share during the period amounted to about 32,752,000 gold marks, of which 2,994,000 gold marks were carried over from the first Annuity. Of this sum, Serbia has taken 28,494,000 gold marks for miscellaneous deliveries in kind, leaving an unexpended balance of 4,258,000 gold marks available for current utilization.

6. *The United States of America.*—The share of the United States for the first nine months of the second Annuity year amounted to about 13,577,000 gold marks, and this amount, together with the credit of about 15,308,000 gold marks, representing its unused share in the first Annuity, remains to the credit of the United States on the books of the Agent General.

7. *Rumania.*—The Rumanian share amounted to about 6,643,000 gold marks. Of this sum, about 6,405,000 gold marks has been taken during the nine months for miscellaneous deliveries in kind, leaving a current balance of about 238,000 gold marks.

8. *Japan.*—The Japanese share has been about 5,604,000 gold marks, including about 1,145,000 gold marks carried over from the first Annuity. Of this sum, Japan has spent about 479,000 gold marks in the purchase of motor cars, leaving an unexpended balance of about 5,125,000 gold marks available for current utilization.

9. *Portugal.*—The credit available to Portugal amounted to about 4,689,000 gold marks, of which 230,000 represented

a carry-over from the first Annuity. Of this sum, the Portuguese Government has taken 4,677,000 gold marks for miscellaneous deliveries in kind, leaving an unexpended balance of only 12,000 gold marks.

10. *Greece.*—The Greek share amounted to about 2,372,000 gold marks. Greece has taken about 2,361,000 gold marks of this sum for miscellaneous deliveries in kind, leaving an unexpended balance of only about 11,000 gold marks.

11. *Poland.*—The Polish Government does not share in reparations, but has had an available credit during the period of about 94,500 gold marks, arising entirely on account of restitution. This includes about 33,000 gold marks carried over from the first Annuity. Of its total credit, Poland has spent about 72,000 gold marks for the purchase of horses in Germany, and about 8,000 gold marks for miscellaneous payments, while 12,000 gold marks has been paid over, as a cash transfer, for account of the Polish Government, in settlement of various amounts owing to the German Government for deliveries made or services rendered prior to September 1, 1924. A balance of 2,500 gold marks remains unexpended.

c. Management of the Annuity.

Further progress has been made within the past six months in the settlement of outstanding accounts, particularly those affecting the distribution of the Annuities.

A summary of the organization established for the administration of the Plan is given in the table which is annexed to this Report as Exhibit VII.

d. Arbitration proceedings.

The previous Report made reference to the organization of the Arbitral Tribunal for which provision was made in the London Agreement, to hear and determine "disputes which may arise between the Reparation Commission and Germany with regard to the interpretation either of the agreement concluded between them, the Experts' Plan, or the German legislation enacted in execution of that Plan". It also enumerated the questions (numbered from I to VIII) which had thus far arisen for determination, all relating to the interpretation of Section XI of Part I of the Plan, as to whether or not the Annuities paid by Germany comprised a series of special payments or transfers. Questions II and VI, affecting certain transfers to Belgium, were settled by agreement between the parties before the meeting of the Arbitral Tribunal, and were accordingly withdrawn. Subsequently, on March 24, 1926, the Tribunal gave its award, deciding questions I, III and IV in favor of Germany, and questions VII and VIII in favor of the Reparation Commission. Questions I and IV related to social insurance funds and civil and military pensions in Alsace-Lorraine, while question III had to do with the transfer of social insurance funds relating to Upper Silesia. Questions VII and VIII, decided in favor of the Reparation Commission, related respectively to

restitution in specie under the Treaty of Versailles and to the claim of Great Britain for coal supplied to the steamship "Jerusalem". The Tribunal gave no decision in respect of question V, affecting civil and military pensions in Upper Silesia, inasmuch as the Agreement of January 9, 1920, between the German and Polish Governments, made no provision for actual payments.

Another question has recently arisen for determination by the Arbitral Tribunal, as to "whether or not the annuities prescribed by the Experts' Plan as payable to the Agent General for Reparation Payments comprise: Compensation paid since the 1st September, 1924, or which may be paid in the future by the German Reich to German nationals in respect of the retention, liquidation or transfer of their property, rights or interests — on whatever date such measures may have been taken — such payments being made in execution of the Treaty of Versailles and in particular under the following Articles of that Treaty—that is to say, Articles 297 (i), 74, 145, 156 (2nd paragraph) read with paragraph 2 of the Protocol signed at Versailles on the 28th June, 1919, and 260." Up to this time only the terms of submission have been signed, and the case is not yet before the Tribunal.

Since the last Report there has been one change in the constitution of the Arbitral Tribunal, Mr. Walter P. Cooke having resigned as President, to become the American Citizen Member of the Reparation Commission. Mr. Thomas Nelson Perkins was appointed as President of the Tribunal in his stead.

e. The German External Loan, 1924.

The service of the German External Loan, 1924, has proceeded regularly in accordance with the terms of the General Bond securing the Loan, and the Agent General, acting on behalf of the Trustees, has provided the necessary funds for the purpose out of the Annuity, all as contemplated by the Plan.

A statement showing the condition of the German External Loan at the end of the first half of the second loan year, that is to say, as of April 15, 1926, is attached to this Report as Exhibit VIII. It indicates, with respect to each *tranche*, the nominal amount of bonds outstanding at the beginning of the second loan year, the nominal amount redeemed up to April 15, 1926, through the operation of the sinking fund, the nominal amount outstanding as of April 15, 1926, and the amount of capital saving resulting from purchases in the market below the redemption prices. Wherever possible the Trustees have continued to make redemptions of bonds for sinking fund purposes by purchases in the market at prices lower than those fixed for redemption by drawings, and during the first half of the second loan year have succeeded in making such purchases up to the full limit of the funds available in the case of the American and German *tranches*, and in substantial amounts with all the others except the Swedish and Swiss Franc *tranches*. The capital saving realized in this way up to April 15, 1926, amounted to over 300,000 gold marks, which accrues to the benefit of the Annuity.

Since the last Report, the definitive bonds of the German *tranche* of the Loan have been made available in exchange for the temporary receipt originally provided. The nominal amount of the German *tranche* has also been definitively fixed at £ 320,000, showing a reduction of £ 40,000 as compared with the provisional amount which was originally fixed for this *tranche*, subject to final adjustment depending upon the expenses of issue, negotiation and delivery for all *tranches* of the Loan.

II. The Transfer Committee.

The Transfer Committee has charge of the transfer of German reparation payments. The Plan provides that the Committee shall regulate the execution of the programmes for deliveries in kind and Reparation Recovery Act payments in such manner as to prevent difficulties arising with the foreign exchange, shall control the transfer of cash to the creditor Governments by purchase of foreign exchange, and generally so act as to secure the maximum transfers without bringing about instability of the currency. The Committee also acts in a consultative capacity to the Reparation Commission in fixing quarterly programmes of expenditure for deliveries in kind. These programmes fix the amounts that may be expended for the several creditor Powers and also the character and amounts of the different classes of deliveries.

a. Summary of transfer operations.

The work of the Transfer Committee during the period from September 1, 1925, to May 31, 1926, may be summarized as follows:

(In gold marks)

Funds Available for Transfer:	
(a) The portion of the Annuity received during the period September 1, 1925 — May 31, 1926, amounting to.....	821,425,066.29
(b) Interest earned on cash balances.....	1,869,916.38
(c) Unexpended balance of the First Annuity, as of August 31, 1925	107,013,270.89
Total	930,308,253.56
Deduct discount on interest on railway bonds received in advance of due dates and sundry exchange differences	6,059,341.04
Balance available for transfer	924,248,912.52

(In gold marks)

Transfers Made:		
1. Transferred in foreign currencies:		
(a) Service of German External Loan	72,557,419.54	
(b) British Reparation Recovery Act	150,816,001.22	
(c) French Reparation Recovery Act	30,043,557.40	
(d) Transport of coal on the lower Rhine	312,265.19	
(e) Liquidation of the accounts of the Franco-Belgian Railway Regie	5,007,229.01	
(f) Settlement of balances owing for deliveries made or services rendered by the German Government prior to September 1, 1924	674,012.29	
(g) Costs of Inter-Allied Commissions	3,404,820.34	
(h) Costs of arbitral bodies	37,545.27	262,852,850.26
2. Transferred by gold mark payments for:		
(a) Deliveries in kind	486,417,577.16	
(b) Restoration of Louvain Library	2,100,316.90	
(c) Armies of occupation	69,037,218.70	
(d) Costs of Inter-Allied Commissions	12,134,754.42	
(e) Miscellaneous payments	1,867,012.62	571,556,879.80
Total amount transferred		834,409,730.06
Leaving a balance of cash unexpended at May 31, 1926, of		89,839,182.46
Total		924,248,912.52

The foregoing statement shows that the transfers made during the first nine months of the second Annuity year amounted in the aggregate to 834,409,730.06 gold marks. Of this sum about 68 per cent, or 571,566,879.80 gold marks, was transferred in the form of deliveries in kind or in various forms of mark payments within Germany, while about 32 per cent, or 262,852,850.26 gold marks, was transferred in foreign currencies. These figures illustrate the volume of transfers that is being currently made, and show the error of attaching undue importance to cash transfers as distinguished from other forms of transfer. It remains true, as the Experts said in their Report, that "in their financial effects, deliveries in kind are not really distinguishable from cash payments."

It will be further observed that there has been no accumulation of funds in the hands of the Agent General. The statement shows a balance on hand at May 31, 1926, amounting to 89,839,182.46 gold marks, but aside from about 29 million gold marks representing the accrued share of the United States of America most of this balance was needed to meet payments falling due in respect of contracts then in course of execution. In all financial affairs, moreover, a working cash balance is essential. As a matter of fact, the cash balance on May 31, 1926, excluding the share of the United States, was only sufficient to cover normal demands for a period of about 17 days in advance.

b. Development of deliveries in kind.

The previous Report made mention of the fact that the Governments of France and Belgium were then studying plans for organizing and improving the procedure for ordering, receiving and distributing deliveries in kind. That their efforts have borne fruit is evidenced by the fact that in the nine months ending May 31, 1926, there were submitted to the Transfer Committee under the so-called Wallenberg Regulations for Deliveries in Kind, 1951 contracts for France, involving a total of 176,716,051 reichsmarks, and 1007 contracts for Belgium for a total of 46,608,087 reichsmarks. These figures are greatly in excess of those for earlier months, particularly in respect of the number of contracts.

The extent and variety of the French and Belgian contracts during this period, which are exclusive of the so-called Treaty deliveries of coal and dyestuffs, appear more clearly from the following table, which summarizes the contracts for deliveries in kind submitted to the Transfer Committee during the period September 1, 1925, to May 31, 1926.

Categories of commodities	France			Belgium		
	No. of contracts	Quantities	Values in reichsmarks	No. of contracts	Quantities	Values in reichsmarks
Coal, coke & lignite .	61	1,221,124[1]	28,859,192	24	135,750[1]	2,422,630
Coal by-products.....	23	37,685[1]	3,159,019	41	37,630[1]	2,259,632
Bricks and other refractory products...	23	—	311,921	43	—	327,754
Fertilisers and other chemical products...	39	73,536[1]	19,512,151	106	74,926[1]	14,848,265
Iron, steel and other metals	177	47,606[1]	12,298,856	147	—	2,046,180
Telephone cable	—	—	—	1	—	3,741,658
Machinery.....	634	—	23,839,639	360	—	9,570,896
Lumber	227	256,991[2]	15,637,057	—	—	—
Telegraph poles	47	107,959[3]	1,617,707	—	—	—
Railway sleepers	—	—	—	6	638,200[3]	5,037,520
Pulp and other paper material	172	156,285[1]	35,569,782	192	18,761[1]	4,353,618
Horses Cattle Sheep	475	1,665[3] 16,563 78,253	14,576,990	—	—	—
Sugar and other agricultural products...	22	—	19,236,622	—	—	—
Textiles.....	5	—	163,095	24	—	71,996
Glass	4	—	157,400	14	—	272,925
Other commodities ...	42	—	1,776,620	49	—	1,655,013
Totals...	1,951	—	176,716,051	1,007	—	46,608,087

[1] In tons.
[2] In cubic meters.
[3] In units.

III. The Work of the Commissioners and Trustees.

The several Commissioners and Trustees are presenting interim Reports upon the work in their respective fields. It is not necessary here to do more than mention some features of these Reports that have a special bearing on the operation of the Plan as a whole.

a. The Commissioner of the Reichsbank.

The Report of the Commissioner of the Reichsbank reviews the principal features of Reichsbank policy during the period from September 1, 1925, to May 31, 1926, and in that connection refers particularly to the Report of the Reichsbank for the calendar year 1925, which was presented at its annual meeting on March 31, 1926. The broader aspects of German currency and credit conditions in their relation to the Plan as a whole are discussed subsequently in Chapter VI of the present Report.

b. The Commissioner for the German Railways.

The German Railway Company has within the past few weeks established its balance sheet as of December 31, 1925, and published its report for the first business year of the Company, covering the period of 15 months extending from October 1, 1924, to December 31, 1925. The Commissioner's report deals with the financial position of the Company and the results of its first working year, and summarizes the development of traffic and of railway rates since his previous report.

The German Railway Company took over the working of the railways on October 11, 1924, but it was not until the following November 16th that it received the lines in the Rhineland and the Ruhr previously operated by the Regie. It nevertheless appears from the Company's report that during its first business year operating receipts have exceeded operating expenditures by over 818,000,000 reichsmarks, even after providing for exceptional expenditures and setting aside substantial funds in reserve. These results more than confirm the estimates made by the Experts at the time of the preparation of the Plan. The Commissioner calls attention to the fact that during its first business year the Company made payment of the full 200 million gold marks which fell due as interest on its reparation bonds for the first Annuity year, and that during the second Annuity year, up to May 31, 1926, it has already paid 400 million gold marks, less the agreed discount on advance payments, out of the 595 million gold marks which become payable in respect to the year. These payments on account of the second Annuity year fell partly in the first business year of the Company, ended December 31, 1925, and the Commissioner points out that after meeting in full its reparation obligations accruing up to that time, the Company was able to set

aside out of its surplus 113,000,000 reichsmarks for the reserve fund established by its statutes to insure the regular service of its bonded indebtedness, and that at the same time it set aside a reserve fund of 3,000,000 reichsmarks for the payment of a dividend on its preference shares held by the Reich, and 150,000,000 reichsmarks to a reserve fund against future deficits and for amortization. The Company's report shows that after taking into account these transactions about 153,000,000 reichsmarks were carried forward to the calendar year 1926.

c. The Commissioner of Controlled Revenues.

The report of the Commissioner of Controlled Revenues shows that effective control of the assigned revenues has continued as contemplated by the Control Protocol. The average monthly receipts from the assigned revenues during the first seven months of the second Annuity year amounted to about 156 million reichsmarks, as compared with a monthly average of about 149 millions during the preceding six months, and 138 millions during the first five months of control.

The Commissioner's report reviews the conditions affecting the various assigned revenues, and refers particularly to the problems of administration which have arisen in connection with the alcohol monopoly.

d. The Trustee for the German Railway Bonds.

The report of the Trustee for the German Railway Bonds summarizes what the Trustee has done since his last report in order to canvass the general situation and ascertain the possibilities of placing a *tranche* of the reparation bonds of the German Railway Company on the investment markets of the world. The Trustee has found it to be the unanimous opinion of all concerned, and he is himself convinced, that the time has not yet come to attempt any sale of the bonds, and that it is still too early to make definite plans or to begin negotiations looking toward that end.

The Trustee states that it is, of course, impossible to predict when the opportune time will arrive for selling some of the bonds, but that in general the prospects for their sale will depend upon the credit of the German Railway Company, its record of operation and earnings, and the general record which is established with respect to the stability of Germany and the progress of the Experts' Plan. The record already made is encouraging, and the Trustee hopes and believes that the further progress of the Railway Company and of the Plan as a whole will lead to an increasing appreciation of the merits of the bonds as international investments. Much will also depend on the progress of stability in European countries generally, not only because of the direct

relation between currency stabilization in surrounding countries and the development of the German economy itself, but also because of the necessity of promoting the general confidence of investors in the economic reconstruction of Europe before appealing to the investment markets to take any large quantity of the bonds. The sale of German Railway bonds might well be made to assist in the process of stabilization, but the first conditions of stabilization can only be fulfilled, of course, within the various countries themselves.

e. The Trustee for the German Industrial Debentures.

The report of the Trustee for the German Industrial Debentures covers the first half of the second Annuity year, and states that during this period the Bank for German Industrial Debentures and the Trustee have worked normally, acting in agreement and in conformity with the Industrial Charges law. The Trustee outlines the further steps which have been taken in the application of the industrial charge, and refers particularly to the several decrees issued by the Government of the Reich in execution of the so-called Aufbringungsgesetz, the law which provides for contribution from business concerns other than those directly subject to the industrial charge, with a view to adjusting and equalizing the charge imposed on German industry. The Trustee points out that the effect of this law and the decrees issued under it, is to enlarge materially the number of concerns paying the charge, and to supply a further guarantee for the service of the industrial debentures by establishing a substantial reserve fund, in the hands of the Bank for German Industrial Debentures.

During the second Annuity year the first payments fall due on the industrial debentures, in the amount of 125 million gold marks, payable in two equal instalments, on April 1, and August 25, 1926. The first instalment was paid promptly on the due date, through the Bank for German Industrial Debentures. The amount payable in the third Annuity year rises to 250 million gold marks, and in the fourth year increases to the standard annual payment of 300 million gold marks, representing interest at the rate of 5 per cent on the total of 5 milliards, plus amortization at the rate of 1 per cent.

The Trustee states that up to this time none of the industrial debentures have been negotiated or redeemed, and that he still holds the 5 milliard gold marks of industrial debentures in full.

IV. The German Budget.

The German budget remains in balance. The preliminary figures for the financial year, ended March 31, 1926, indicate a safe margin of receipts over expenditures, and the estimates for the current year contemplate that the accounts this year may be balanced with the help of the surplus funds remaining over from the two previous years although some borrowing is now Expected.

The two principal changes in the budget situation of the Reich since the previous Report have been, first, the reform in budgetary legislation, and second, the adoption of an important programme of tax revision, intended to bring about a better adjustment of revenue to public expenditure. On August 10, 1925, the budget for the year 1924-25 was approved by the President; on January 30, 1926, the budget for the year 1925-26 was approved; and on March 31, 1926, the budget was approved for the current financial year, running from April 1, 1926, to March 31, 1927. Thus for the first time since 1911 a budget of the Reich has been adopted before the beginning of the year to which it related. There have since been two supplemental budgets for the year 1925-26, and there still remains much to be done in the direction of clarifying the financial accounts. But in general there has been an encouraging return toward normal budgetary practices.

The accounts of the financial year 1925-26 were closed on May 31, 1926, but final figures for the year, particularly on the expenditure side, will not be available for two or three months. It is, therefore, impossible at this time to undertake any comparative analysis of the three budget years since stabilization or to make anything like a general survey of the budgetary position of the Reich. It may be helpful, however, for purposes of information, to give in summary form the latest available figures for the financial years 1924-25, 1925-26 and 1926-27.

a. The budget of the Reich for the financial year 1924-25.

The final figures for the receipts and expenditures of the financial year beginning April 1, 1924, and ending March 31, 1925, were made public on April 19, 1926. The official figures do not vary in any important particular from the preliminary figures given in the previous Report, but as a matter of convenient record may be summarized as follows:

(In millions of reichsmarks)

Receipts:		
Taxes:		
Taxes, on incomes, sales, transport, etc.	5,764.6	
Customs, and taxes on tobacco, beer etc.		
(a) Assigned	1,427.4	
(b) Other	129.7	7,321.7
Administrative revenue, including return from State undertakings, etc.		208.5
Profits by way of seignorage on the coinage, etc.		173.9
Proceeds of loans (derived from the stabilization loans of 1923)		355.3
Total receipts		8,059.4

(In millions of reichsmarks)

Expenditures:	
Payments to the States and communes	2,770.4
General administrative expenses	1,683.3
War pensions, etc.	1,021.7
Other war charges:	
(a) Internal charges, miscellaneous	155.1
(b) Charges arising out of the war and the occupation incurred prior to the Experts' Plan	1,087.0
Reduction of debt	449.9
Total expenditures	7,167.4
Surplus shown for the year	892.0
Out of which there are "outstanding expenditures" to a net total of	395.6
Leaving a surplus available for subsequent years of	496.4

It will be observed that the surplus for the year as finally determined amounted to 496.4 million reichsmarks, which agrees with the preliminary figures given in the previous Report.

In considering the meaning of this surplus, it is of interest to analyse the above figure of 395.6 millions of reichsmarks for net "outstanding expenditures." It appears to be made up as follows: —

(In millions of reichsmarks)

Advance to the German Railway Company (of which 82 millions were paid in 1924 and 38 millions in January 1926), subsequently used in the purchase of preference shares of the Railway Company	120.0
Payments in respect of losses suffered by German nationals on account of requisitions arising out of the war and through seizures of property abroad; and losses in connection with the operations of the clearing office for war claims	155.0
Non-recurrent expenditure on barracks and supplies for the Army and Navy	31.7
Expenditures arising out of war liquidation	12.2
Expenditures arising out of the occupation of the Ruhr	14.3
Grants to the Federal States in respect of unemployment	52.3
Carried forward	385.5

(In millions of reichsmarks)

Brought forward	385.5
Loans and subsidies to building societies, etc., for housing construction	10.2
Miscellaneous	29.6
	425.3
Less sundry loans to the Federal States (carried as "outstanding revenue")	29.7
Balance	395.6

To some extent the foregoing items represent expenditures incurred but not yet discharged. Other items represent expenditures which have not yet been incurred, and may not be incurred. Any items saved will remain at the disposal of the Treasury but the exact amount cannot yet be stated.

b. The budget of the Reich for the financial year 1925-26.

The budget for this year, which ended March 31, 1926, was approved on January 30, 1926. A supplementary budget was approved on May 20th, and a second supplementary budget on May 22, 1926. The accounts for the year were closed on May 31, 1926, but the final results will not be known for several months.

Briefly summarized, the present figures for the budget of 1925-26 are as follows:

(In millions of reichsmarks)

Estimated Receipts:		
Taxes:		
Taxes on income, sales, transport, etc.	4,911.0	
Customs, and taxes on tobacco, beer, etc.		
(a) Assigned	1,735.0	
(b) Other	124.5	
Tax receipts not yet classified..	30.4	
		6,800.9
Administrative revenue, including return from State undertakings, etc.		173.0
Profits by way of seignorage on the coinage, etc.		225.5
Surplus brought over from 1924-25.....		276.4
Proceeds of loans (not in fact issued).....		100.0
Total estimated receipts....		7,575.8

(In millions of reichsmarks)

Estimated Expenditures:		
Payments to the States and communes		2,539.9
General administrative expenses		2,596.6
War pensions, etc.		1,369.7
Other war charges:		
Internal charges arising out of the war, the occupation, etc.	336.7	
Execution of the Experts' Plan..	291.7	
		628.4
Reduction of debt:		
Sundry gold loans	253.7	
Revalorized debt	187.5	
		441.2
Total estimated expenditures....		7,575.8

On the face of the foregoing estimates, expenditures would exceed revenues by 376.4 million reichsmarks, and this difference in turn would be covered by transferring 276.4 million reichsmarks out of the surplus for the preceding year and issuing a loan in the amount of 100 million reichsmarks. In fact, no such loan has been issued, and it is presumed that it proved unnecessary. It is also to be noted that even if the loan had been required, it would not have involved any actual increase in debt since the expenditure estimates on their side contemplate debt reduction to the amount of 441.2 million reichsmarks.

Receipts:

Full figures are not yet available for the actual receipts of the Reich for the financial year 1925-26, particularly under the headings of administrative revenue and seignorage on the coinage. The yield from taxation, however, is definitely known and has proved to be 55.4 million reichsmarks in excess of the estimates. The following table gives the details of the tax receipts, as compared with the estimates and the figures for the preceding year:

(In millions of reichsmarks)

	Financial year 1924-25	Financial year 1925-26		
	Actual receipts	Estimated receipts	Actual receipts	As compared with preceding year
Taxes on income, sales, transport, etc.				
(*a*) Recurrent	5,685.6	4,851.0	4,833.0	— 852.6
(*b*) Non-recurrent ...	79.0	60.0	59.7	— 19.3
Customs, and taxes on tobacco, beer, etc.				
(*a*) Assigned	1,427.4	1,735.0	1,851.3	+ 423.9
(*b*) Other	123.0	124.5	111.3	— 11.7
Miscellaneous	6.7	—	1.0	— 5.7
Tax receipts not yet classified	—	30.4	—	—
Totals....	7,321.7	6,800.9	6,856.3	— 465.4

The following table gives a more detailed analysis of the re-receipts from recurrent taxes on incomes, sales, transport, etc., as compared with receipts from the same sources in the financial year 1924-25:

(In millions of reichsmarks)

	Financial year 1924-25	Financial year 1925-26		
	Actual receipts	Estimated receipts	Actual receipts	As compared with preceding year
Income tax:				
(*a*) On wages	1,331.6	—	1,367.8	+ 36.2
(*b*) On income from capital	19.2	—	82.3	+ 63.1
(*c*) On other forms of income	862.5	—	803.2	— 59.3
Total for income tax...	2,213.3	2,170.0	2,253.3	+ 40.0
Corporation tax	313.9	180.0	186.6	— 127.3
Tax on real and personal property	498.9	350.0	270.4	— 228.5
Turnover tax:				
(*a*) Ordinary	1,798.5	1,320.0	1,338.3	— 460.2
(*b*) Extraordinary (luxury)	119.3	110.0	77.7	— 41.6
Tax on Bourse transactions	112.8	43.0	40.3	— 72.5
Transport tax	312.6	325.0	318.3	+ 5.7
Other taxes	316.3	353.0	348.1	+ 31.8
Totals...	5,685.6	4,851.0	4,833.0	— 852.6

The receipts from the customs and the other assigned revenues show an increase over the estimates of 116.3 million reichsmarks, and a substantial improvement as compared with the receipts in the preceding year. The following table gives the receipts in detail, with corresponding figures for the preceding year:

(In millions of reichsmarks)

	Financial year 1924-25	Financial year 1925-26		
	Actual receipts	Estimated receipts	Actual receipts	As compared with preceding year
Customs.....	356.6	500.0	590.5	+ 233.9
Tobacco tax.....	513.7	580.0	615.5	+ 101.8
Beer tax.....	196.5	260.0	256.0	+ 59.5
Sugar tax.....	219.1	245.0	236.2	+ 17.1
Spirits monopoly.....	141.4	150.0	153.1	+ 11.7
Totals	1,427.4	1,735.0	1,851.3	+ 423.9

An examination of the foregoing figures discloses a steady decline in the revenues during the year, due in part to the economic crisis but chiefly to the repeated reductions in taxation, particularly in the turnover tax. The net reduction in the tax burden as compared with the preceding financial year amounted to 465.4 million reichsmarks. This gave a substantial relief to the German economy, and represented a necessary readjustment of the high taxation that was put into effect at the time of stabilization.

Expenditures:

No information is available as to the actual expenditures. The estimates for unemployment relief will doubtless be exceeded, but in the absence of the figures it is useless to draw conclusions or attempt predictions.

c. The budget of the Reich for the financial year 1926-27.

The budget for this year was approved on March 31, 1926, in a form which gives effect to the tax reduction programme previously announced by the Government of the Reich. It may be summarized as follows:

(In millions of reichsmarks)

Estimated Receipts:		
Taxes:		
Taxes on income, sales, transport, etc.	4,506.0	
Customs and taxes on tobacco, beer, etc.		
(a) Assigned	1,907.0	
(b) Other	52.3	6,465.3
Administrative Revenue:		
Return from State undertakings (including 70 million reichsmarks from the Postal administration)	73.8	
Dividends on shares of German Railway Company	29.7	
Miscellaneous	169.3	272.8
Profits by way of seignorage on the coinage, etc.		134.3
Surplus brought over from previous years		367.8
Proceeds of loans (not as yet issued)		293.8
Total estimated receipts		7,534.0
Estimated Expenditures:		
Payments to the States and Communes		2,386.5
General administrative expenses		2,476.4
War pensions		1,498.7
Other war charges:		
Internal charges	210.7	
Execution of the Experts' Plan	600.3	811.0
Reduction of debt:		
Sundry gold loans	162.4	
Revalorized debt	199.0	361.4
Total estimated expenditures		7,534.0

These estimates apparently contemplate expenditures to an amount that would exceed the revenues by 661.6 million reichsmarks, but propose to cover this deficiency by bringing over 367.8 million reichsmarks from the surpluses of previous years and, if necessary, by issuing internal loans to the amount of 293.8 million reichsmarks. It is not yet possible to analyse these figures in detail, but it will be noticed that the estimates also contemplate expenditures to the amount of 361.4 million reichsmarks for the reduction of debt.

d. The budgets of the States and communes.

The previous Reports have emphasized the difficulty of getting accurate information as to the financial transactions of the various States and communes, as well as the great importance of this information to any adequate understanding of the German budgetary position. There has been no material improvement in this respect since the publication of the last Report, but there is reason to expect some progress by the end of the present calendar year.

Pursuant to the law of August 10, 1925, concerning the reciprocal taxation rights of the Reich, the States and the communes, the Finance Minister of the Reich on March 3, 1926, published a decree requiring the States and communes to submit their draft budgets and final budget accounts as soon as established, and to present statements of their revenue and expenditure at regular intervals. These statistics are intended to provide the basis for a new settlement of the fiscal relations between the Reich, the States and communes prior to March 31, 1927, when the existing provisional arrangements expire.

The result should be to clarify the financial relations between the Reich and the States and communes, and to assure more adequate publicity for the financial accounts of the States and communes.

V. The German Public Debt.

The public debt of the Reich has undergone a further reduction since the previous Report. Generally speaking, however, the public debts of the States and communes have shown an upward tendency.

a. The public debt of the Reich.

The public debt of the Reich on March 31, 1926, that is to say, at the end of the financial year 1925-26, amounted to about 2,318 million reichsmarks (exclusive of the revalorized paper mark debt). This figure compares with a total of 2,552.3 millions of reichsmarks on September 30, 1925, and shows a reduction of 234.3 million reichsmarks during the six months.

The Reich has a further liability in respect of the revalorized paper mark debt. The exact amount of this liability is not yet known, inasmuch as the time limit for determining the amounts due to the so-called old holders has not yet expired in the case of foreign

holders. The previous Report estimated that the nominal total of the revalorized debt would amount to approximately 1,821 millions of reichsmarks, and the indications now are that this estimate is likely to be exceeded.

The following table shows in detail the public debt of the Reich (exclusive of the revalorized paper mark debt) as of March 31, 1926, with comparative figures for the two previous years. The figures for 1924 and 1925 are taken, in part from the memorandum on debts supplied to the Reichstag by the Finance Ministry, and those for 1925 differ slightly from the figures given in the previous Report, which were taken from *Wirtschaft und Statistik*, the publication of the Statistical Office of the Reich. In the absence of an official statement, the figures for 1926 are likewise taken from the Statistical Office publication, and are, to some extent, estimated.

(In millions of reichsmarks)

Statement of the Public Debt of the Reich	March 31, 1924	March 31, 1925	March 31, 1926
I. Treasury Bonds and Bills			
Dollar Loan, issued under Law of March 2, 1923, redeemable April 15, 1926. Debt assumed by the Reichsbank	195.0	—	—
Gold Loan of 1932, issued under Law of June 4, 1923, to guarantee issue of fixed value emergency currency (Notgeld). Redeemable December 1, 1932, but largely repurchased in 1924	42.0	1.4	1.2
Gold Loan of 1935, issued under Law of August 14, 1923; offered in the amount of 500,000,000 goldmarks, but largely redeemed through purchases in the open market	210.2	21.8	19.1
"K" Bonds issued under Law of July 11, 1923, to provide compensation to German nationals for war damage and reparation deliveries	2.8	1.3	0.9
"E" Bonds, issued under decree of February 9, 1924, in exchange for "K" Bonds, and also to provide compensation to German nationals for certain deliveries in kind and for Reparation Recovery Act deductions on German exports to Great Britain. Issued in three series, bearing no interest but repayable in four semi-annual instalments at 100, 105, 110 and 115 respectively, beginning, according to the series, October 1, 1924, January 1, 1925, and April 1, 1925	—	251.1	87.1
Reichsmark Bills,—short term Treasury obligations discounted in the market	148.9	30.0	—
	598.9	305.6	108.3
II. Bank Loans			
From the Rentenbank, granted under decree of October 15, 1923, to a maximum amount of 1200 million rentenmarks	1096.5	1185.0	986.6
From the Reichsbank, contracted in the course of efforts to support the mark at the beginning of 1923	235.5	226.5	217.5
	1332.0	1411.5	1204.1

Statement of the Public Debt of the Reich	March 31, 1924	March 31, 1925	March 31, 1926
III. Miscellaneous			
Guarantees given by the Reich, chiefly for purchases of food supplies during and after the War, and expressed for the most part in foreign currencies	447.7	105.2	52.2
"Meliorationskredit", representing obligations arising out of credits granted by the Reich to agriculturists	—	9.0	12.0
Other obligations	27.4	18.6	18.6
IV. German External Loan, 1924	475.1	132.8	82.8
Issued in conformity with the provisions of the Experts' Plan, and under the terms of the General Bond executed by the Government of the Reich on October 10, 1924. Expressed in foreign currencies, which, for the purposes of this statement, are converted at the rates of exchange prevailing respectively on March 31, 1925, and March 31, 1926	—	945.7	922.8
Totals	2406.0	2795.6	2318.0

The figures given for the German External Loan, 1924, show the further progress of debt reduction, by means of the payments made out of the Annuity for sinking fund purposes.

b. The public debts of the States and communes.

The public debts of the States and communes have increased within the past six months, partly as a result of further foreign borbowing, though on a diminishing scale, and partly through issues of their securities on the German domestic market. There are no adequate figures to show the present status of their debts, but the best information available as to their domestic and foreign borrowing in recent months is summarized in the tables appearing in Chapter VI of this Report.

VI. German Currency and Credit.

The stability of the German currency, one of the primary objects of the Experts' Plan, continues to be fully maintained, both in relation to other gold currencies and in its internal purchasing power. In the six months which have elapsed since the last Report, there has also been further progress toward the attainment of more normal credit conditions. This progress, as is consistent with the experience of other nations undergoing a severe readjustment, has been attended with difficulties involving hardship in many quarters. The following paragraphs give a preliminary and necessarily restricted review of the more important developments.

a. The German currency.

Maintenance of the reichsmark at parity with the dollar has been insured, as in the previous period, through the technical agency of the Reichsbank, which has purchased offerings of dollars in excess

of the market demand and sold dollars required in excess of the market supply. To that extent the reichsmark does not yet move freely as an independent currency on the foreign exchange markets of the world. But an advance in that direction was made on May 1, 1926, when a decree of the Reich suspended two regulations theretofore in effect: (1) that which prevented forward dealings on the German foreign exchange markets, and (2) that which restricted foreign exchange trading to rates officially fixed each day on the Berlin Bourse. The suspension of these regulations frees foreign exchange transactions from all their former restrictions with the single exception that such transactions are still to be carried out only by legally authorized banking institutions. The Reichsbank has thought it unwise for the moment, however, to release the reichsmark from its technical adherence to the dollar.

The volume of currency in circulation has fluctuated during the last six months within narrow limits. At the end of November, 1925, there first appeared a slight shrinking in the circulation, reversing the tendency toward expansion which had been in progress since the early months of stabilization, and coinciding with a rapid rise in unemployment and business failures. The currency contraction continued through the usual period of holiday expansion and by the end of January the circulation was below the level of the preceding summer and autumn. Since then the tendency to rise has again shown itself, reflecting a gradual increase in business activity. As a matter of common observation, it is to be noted that the velocity of the circulation appears also to have diminished, and the shortage of till money in the possession of shop-keepers, obvious in earlier months, has largely disappeared. There is no longer the same degree of pressure to return cash to the banks as attended the former period of high interest rates and intense credit stringency.

End of month	Reichs-banknotes	Renten-banknotes	Other[1] currency	Total	% of Renten-bank notes in the total
	(In millions of reichsmarks)				
1925					
June	2,474.4	1,671.7	655.3	4,801.4	34.8
July	2,530.3	1,701.3	679.9	4,911.5	34.6
August	2,594.6	1,712.6	696.9	5,004.1	34.2
September	2,649.1	1,713.1	718.9	5,081.1	33.7
October	2,802.9	1,542.6	737.4	5,082.9	30.3
November	2,770.9	1,480.3	753.2	5,004.4	29.6
December	2,960.4	1,475.7	772.4	5,208.5	28.3
1926					
January	2,648.8	1,450.2	764.8	4,863.8	29.8
February	2,822.3	1,335.4	784.0	4,941.7	27.0
March	3,159.6	1,108 4	800.3	5,068.3	21.9
April	3,085.9	1,156.8	809.4	5,052.1	22.9
May	2,878.0	1,373.1	813.9	5,065.0	27.1

[1] Including notes of the private banks of issue which have varied between 176 and 191 million reichsmarks; the remainder is composed of small coinage of the Reich.

The month-to-month changes in the circulation appearing in the foregoing table show the interruption and then a moderate reassertion of the process of expansion. The two movements during the last seven months have nearly offset each other, and on May 31, 1926, the circulation was approximately the same as at the end of October, 1925. But within the total of the circulation, as among the various elements composing it, the changes were more pronounced. The liability of the Reichsbank on account of its note circulation was largely increased, and this increase plus that of the coinage of the Reich very nearly equalled the decrease in the circulation of the Rentenbank. As has been stated in greater detail in previous reports, the Rentenbank is in process of liquidation and its notes are being retired as funds available for redemption are accumulated. From October, 1924, when the Liquidation Law went into effect, up to April, 1926, some 524 millions of Rentenbank notes have been redeemed and destroyed, and their place has been taken by Reichsbank notes. While nominally the currency liability of the Reichsbank is limited to its own notes, it has an undeclared liability on account of Rentenbank notes which is thus gradually being converted into an actual liability. Consequently it is desirable to count the gold and devisen reserves of the Reichsbank not simply against the Reichsbank's own notes, but against the joint circulation of the two banks.

The Reichsbank is bound under the law to hold gold and eligible foreign devisen up to at least 40 per cent of its note circulation. The gold and devisen cover for the Reichsbank's note circulation, if extended to apply also to its undeclared liability on account of Rentenbank notes, has maintained during 1926 a proportion on the whole considerably above what is required against Reichsbank notes alone. This was a reflection not only of a somewhat diminished circulation during the early months of the year, but of the increased gold and devisen reserves. Between October 31, 1925, and May 31, 1926, the holdings of gold and reported devisen increased 324.2 million reichsmarks to 1,879.4 millions, of which 1,491.9 millions were in gold.

b. Credit conditions in Germany.

At the close of 1925 credit conditions in Germany were in a state of transition. Industries in good position were repaying some portion of their short debts or were converting them into longer-term obligations, mainly by foreign borrowings; other concerns, unable to meet maturing obligations and unable to procure long term credit, were going out of business in increasing numbers. In the money markets this state of transition was manifested in a gradual enlargement of the volume of funds seeking short-term investment, and on the other hand in a gradual decrease in the volume of bills in which such funds could be safely placed. This growing ease of money was limited, during 1925, to the short-term markets; the domestic market for new capital issues of more or less distant maturities practically did not exist. The reopening early in 1926 of the German market for new issues at long term followed naturally, however, upon the abundance of short-term funds, and furnished the most constructive credit development of the period to which this Report refers.

The transition in the money markets was accelerated by the business crisis which reached its acute stage in the winter. The withdrawal of bank credit from unprofitable concerns furnished an immediate occasion for the crisis and at the same time tended to concentrate idle money in the central markets, a process entirely typical of the later stages of a severe business readjustment. The extent to which the progress made at such cost can be held will depend both upon the part that domestic savings have played thus far in filling up the reservoir of credit, and upon the volume of savings in future. It is not to be assumed that the reawakened capacity of the German investor to provide working capital for domestic use indicates that Germany is already fully capable of sustaining herself, but at least an advance in that direction has been made.

(1) *Domestic market for new capital issues.*—The first evidence that a change had taken place in the domestic capital market was a small municipal loan issued late in February, 1926. Its maturity was 25 years, its rate 8 per cent and its issue price 87. It was handled by a syndicate of bankers and public subscriptions were reported to be much in excess of the offering. The condition of the short-term money market at that time is noteworthy. The three-months' bill rate, which at the beginning of the year stood at 6¾ per cent, was rapidly declining and at the end of February reached 5 per cent. Rates for stock market loans were also working progressively lower. The State of Prussia for some months had been issuing treasury notes of short maturity, later lengthened to three years. The banks for their part were offering unattractive rates for foreign deposits, and these were being gradually withdrawn and in some instances German banks were placing out money in foreign financial centres.

The easy conditions thus reflected in the short-term money markets facilitated the placing of long-term issues, and in the period from the middle of February up to May 31st formal public issues of bonds and notes of varying maturities aggregated about 410 million reichsmarks. In addition, less formal issues, some of a merely local character, were reported up to a total of 258 millions. On June 10th the German Railway Company issued under guarantee of the Reich 150 million gold marks nominal amount of preference shares, of which 100 million were offered to the public and much oversubscribed. This offering is not included in the following table which covers the period up to May 31st.

(In reichsmarks)

Domestic loans	Compiled from prospectuses	Compiled from other sources	Totals
I. Loans of the Reich or its departments	70,000,000	—	70,000,000
II. Loans of the States	47,700,000	145,000,000	192,700,000
III. Provincial or municipal loans	123,000,000	39,500,000	162,500,000
IV. Loans of public and semi-public enterprises	48,500,000	45,000,000	93,500,000
V. Loans of private enterprises	121,250,000	28,350,000	149,600,000
Totals, January 1—May 31, 1926	410,450,000	257,850,000	668,300,000

It will be seen from the foregoing table that by far the heaviest borrowers have been the States and municipalities, and the enterprises operating under their auspices. The increase in the volume of public debt in its broader aspects has been mentioned elsewhere, but it should not be overlooked here that it bears a direct relation also to the general credit situation. Just as the activity of the market for new issues was an outgrowth of the larger supply of short-term money, so a renewal of business activity will bring fresh demands upon short credit for the ordinary purposes of production and trade. Excessive use of credit in the meantime, particularly when it is for unproductive purposes, will be sure to aggravate any difficulties that may develop later in financing business and industry.

(2) *Foreign loans.*—As the domestic market for new issues increased, the volume of foreign borrowing declined. The main influence which operated to curtail the volume of foreign loans was naturally that of the competitive rate established on loans in the domestic market. Foreign bankers, whose costs preparatory to issue are likely to be higher than in the case of domestic loans, found increasing difficulty in meeting the rates fixed in the German market. A further deterrent to foreign borrowing has been the work of the Beratungsstelle, an advisory organization representing the Finance Ministry, the Economics Ministry, the Reichsbank and the States, which passed upon the urgency of proposals on the part of the States, municipalities and other public authorities to borrow abroad. In some cases, loans which the Beratungsstelle discouraged for foreign offering were subsequently placed in the domestic market.

The inflow of the proceeds of these foreign loans has undoubtedly played an important part in influencing the return of easier money conditions in Germany. In their earlier phase, moreover, foreign credits provided funds with which to pay a substantial share of the excess of imports in German foreign trade and to furnish the Reichsbank with additional reserves of gold and devisen. More recently, notably during December, 1925, and the first four months of 1926, the foreign loans though on a reduced scale have coincided with an excess of exports over imports. This fact, supplemented by other evidence known to the banks, has led the German authorities to the conclusion that for several months past the aggregate foreign debt of Germany has not changed materially, and that the large volume of long-term issues placed abroad during that period has largely taken the place of a short debt already owed abroad but now repaid. It is clear at any rate that latterly there has been a tendency for certain German issues placed abroad to flow back again into the hands of German investors, and that the German banks have themselves become substantial holders of liquid funds abroad. It is too soon, however, to tell how far these conditions may prove to be permanent, and what bearing they will have on the future course of foreign credits to Germany.

(In millions of reichsmarks)

Foreign loans	January 1 to May 31, 1926	1925 (whole year)	Totals
I. Loans of States.....	48.8	138.6	187.4
II. Municipal or communal loans ..	119.9	256.0	375.9
III. Loans of public and semi-public undertakings	92.5	364.5	457.0
IV. Loans of private enterprises .	280.3	470.7	751.0
V. Loans of various church organizations	9.1	25.1	34.2
Totals	550.6	1,254.9	1,805.5

(3) *The public funds.*—The previous Report described at length the public banking structure which has developed in Germany, and outlined the problems involved in the administration of the various public funds under the control of the Reich, the States and the municipalities, and their different agencies. It pointed out the importance of bringing the administration of the public funds into harmony with the policy of the Reichsbank, but stated at the same time that fundamentally the solution of the problem "must contemplate a closer adaptation of the sources of public revenue with essential expenditures." In the period which has since elapsed the Financial Administration of the Reich has made substantial progress in this direction, and has recommended and passed through the Reichstag a programme of tax reduction. The theory of this programme has been first, that the level of Government expenditures should be reduced, with a corresponding reduction of the tax burden on the German economy, and second, that the Government of the Reich should abandon the policy of carrying a large volume of public funds in reserve and endeavor instead to match its revenues more closely to its needs, with recourse to the normal facilities of the money market to meet temporary requirements that may develop in advance of collections of taxes. In harmony with this new policy, the Finance Minister and the Reichsbank have formulated amendments to the Bank Law of August 30, 1924, which are intended to encourage the development of a normal market for Treasury bills of the Reich and to authorize the Reichsbank, within definite limits, to extend its usual credit facilities to the short-term paper of the Reich which is brought to it by the open market. These amendments are in the interest of a gradual restoration of the normal relationship between the Treasury and the money market, and should bring further progress in reforming the administration of the public funds.

At the present time, the Reich still holds a substantial cash reserve, though its size is diminishing. In a statement made to the Budget Committee of the Reichstag on May 7, 1926, the Finance Ministry summarized its nominal cash assets on May 1st as follows:

	(In millions of reichsmarks)
1. Giro and postal check account	68
2. Assigned revenues	150
3. Reichsbank, Seehandlung and Reichs-Kredit-Gesellschaft	345
4. Agricultural credits	125
5. Spirits monopoly	56
6. Advance to the reorganized Deutsche Werke	10
7. Credits to the States	18
Total	772

It is not clear how much of the foregoing, aside from the first item of 68 million reichsmarks (which represents deposits in the Reichsbank giro account and in the postal check system) is in the form of liquid cash. The third item of the statement, however, refers to 345 million reichsmarks as having been placed with the Reichsbank, the Seehandlung and the Reichskreditgesellschaft. Whatever their precise total may be, it is clear that the volume of liquid funds held by the Reich in reserve has fallen materially within the past six months, and with the tax reduction programme in effect it is tending more and more to assume the proportions of a normal working fund. There would seem to be no reason, however, why the public funds of the Reich, even on their present scale, should not be placed with the Reichsbank or administered through it in accordance with the contemplation of the Bank law, instead of being placed with the Seehandlung and the Reichskreditgesellschaft.

The surplus funds in the hands of the States and communes have also diminished considerably during the past six months, partly as a result of mounting local expenditure and partly as a result of lower tax receipts. Indeed, many of the States and communes have now appeared in the market as borrowers rather than as lenders of funds. The Postal Administration of the Reich has also become a borrower, mainly for purposes of new telephone construction. At the same time, it still holds separately important reserve funds, chiefly in connection with the postal check system, and these it is investing largely in bills and longer-term loans, more and more in co-operation with the Reichsbank.

The German Railway Company still carries its funds with the Verkehrskreditbank in the manner described in the last Report. The surplus funds of the Railway Company, however, have been considerably reduced within the past six months, as compared with the 489 millions of reichsmarks shown in its balance sheet as of December 31, 1925.

(4) *Agricultural credit.*—The inflation left agriculture with depleted working funds, though with some relief from old mortgage obligations. But as compared with industry and the States and municipalities, it had but limited access to foreign credits. German agriculture thus found itself almost entirely dependent on domestic credit, and this at a time when the supply of long-time credit was scarce and to be obtained only at high rates.

Within the past six months, however, there has been some easing in the situation and the gradual accumulation of savings, with the development of the domestic market for new capital issues, has resulted in increasing the supply of long-term credit for agricultural purposes. This movement began soon after the first of the year, when the market for obligations of the principal mortgage banks, in part representing the extension of credit to agriculture, took a pronounced turn for the better.

The broader market for mortgage obligations in January followed the formation by the Reichsbank administration of a plan to use funds of the Golddiskontbank for the purchase of three to five year issues of the Rentenbank Credit Institution. Thus far little has in fact been required of the Golddiskontbank, but increased lending by the Rentenbank Credit Institution is based upon this assurance of support. The Reichsbank itself adheres, of course, to the principle that its funds will be available only for the purpose of financing the production and marketing of crops. But the Reich, the States and the publicly-controlled agricultural and other banks have lent substantial sums to agriculture for the purchase of fertilizers and seeds, and for the payment of transportation and other items directly related to production and marketing.

The extent to which the volume of agricultural credit has recently increased does not appear in any official statements, but the amounts outstanding at the end of 1925, and on March 31, 1926, have been estimated by the Institut für Konjunkturforschung, which is related to the Reich Statistical Office, as follows:

(In thousands of reichsmarks)

	December 31, 1925	March 31, 1926
On mortgages.		
Co-operative and provincial banks	536,510	580,000
Mortgage banks	277,030	300,000
Savings banks, insurance companies, etc.	265,000	320,000
Total mortgage loans	1,078,540	1,200,000
On borrowers' paper.		
Rentenbank	587,000	587,000
Rentenbank-Kredit-Anstalt	148,050	143,100
Reichsbank, the Reich, the State of Prussia and other States	362,380	289,160
Seehandlung, Reichs-Kredit-Gesellschaft, Preussenkasse and Verkehrs-Kreditbank	199,530	177,390
Savings banks, Girozentralen and Co-operatives	646,860	650,750
Private banks and other	100,000	100,000
Total on borrowers' paper	2,043,820	1,947,400
Totals	3,122,360	3,147,400

The slight increase in the volume of agricultural credit that took place in the first three months of the year was occasioned by a rise of about 11 per cent in the mortgage loans, almost offset by a decline in the loans on borrowers' paper.

c. The volume of bank credit.

The volume of credit reported in the periodic statements of the banks reflected with some fidelity the various phases of the business crisis. Whereas, generally speaking, the volume of credit expanded rapidly in the first half of 1925, in the second half of that year the growth was slower and at times negligible. This period of dulness carried through into the early months of 1926, but in the spring months the tendency to expand reasserted itself. It is noteworthy that the recent expansion observed in the accounts of the banks did not involve additional use of Reichsbank credit; on the contrary, the loans of the Reichsbank at the end of May, 1926, were at the lowest point reached at any month-end since the early stages of stabilization.

(1) *Reichsbank credit.*—Early in January, 1926, the Reichsbank announced the termination of its credit rationing policy which had been in effect though with diminishing severity since April, 1924. Indeed, by the middle of December, 1925, this policy had ceased to have much practical importance. The volume of domestic bills eligible for rediscount at the Reichsbank had so far diminished and the ability of the banks to maintain themselves without recourse to the Reichsbank had so far increased, that the banks as a whole were living well within the allotments of credit fixed by the Reichsbank and its branches. Further, the Reichsbank's holdings of foreign bills were rapidly increasing, thereby strengthening its reserves against outstanding notes at a time when the circulation was tending downward. The renunciation of the rationing policy gave assurance that in the judgment of the Reichsbank emergency measures no longer were required to prevent undue credit expansion, and that thereafter the ordinary pressure exerted by the discount rate plus the Reichsbank's power to exercise selection in discounting bills, would be sufficient to hold expansion in check. A few days later, on January 12, 1926, the Reichsbank lowered to 8 per cent its discount rate, which had stood at 9 per cent since February 26, 1925. The rate was reduced again on March 27th to 7 per cent and on June 7th to 6½ per cent.

The volume of Reichsbank credit has continuously diminished since December, 1925. The two items published in the weekly statements of condition, "Bills and checks" and "Lombard loans", plus an additional item representing the Reichsbank's contingent liability on account of bills bought from its portfolio by the public offices and agencies, give a fair reflection of the employment of Reichsbank short credit. That composite figure has diminished from 2,398.2 million reichsmarks on December 31, 1925, to 1,368.8 millions on May 31, 1926.

(2) *Public bank credit.*—The available figures for the position of the public banks give a picture that is necessarily incomplete, for the reason that two of the largest banks, the Reichskredit-Gesellschaft and the Verkehrs-Kreditbank, do not yet publish statements except as of the ends of their financial years. Moreover, composite statements for an adequate number of State and provincial banks do not run back far enough to permit comparisons over more than brief periods. From the figures that are available, however, it appears that in the last six months the volume of credit shown in the statements of 19 State and provincial banks has remained practically static. Examination over a more extended period of the statements of the Seehandlung (the Prussian State Bank), which accounts for somewhat less than half of the total loans and deposits of all the reporting State and provincial banks, shows that its deposits doubled in the first half of 1925 and thereafter fluctuated within very narrow limits. It is to be noted that the apparent stoppage of growth on the part of the public banks has coincided with the period when the disposition of public funds was becoming less free and when finally the volume of such funds has been rapidly declining.

(In thousands of reichsmarks)

	19 State and provincial banks including Seehandlung			13 Girozentralen		
	April 30, 1926	Feb. 28, 1926	Oct. 31, 1925	April 30, 1926	Feb. 28, 1926	Oct. 31, 1925
Cash and amounts due from banks.....	330,047	335,253	291,395	201,755	200,831	147,006
Bills and treasury notes	442,979	384,072	434,084	144,989	156,851	145 019
Loans and advances ..	1,174,586	1,156,556	1,191,874	999,753	734,224	656,442
"Gläubiger",—mainly time and demand deposits	1,905,449	1,850,088	1,863,939	1,099,686	1,074,404	929,799

The Girozentralen, through which the various savings offices and communal banks are knitted together, have reported a slow rise in deposits, but considerable increases in the volume of loans. During this period, particularly in its later stage, the Girozentralen have borrowed substantial sums at home and abroad, which have been apportioned largely to the smaller banks for further disposition.

Savings deposits in the Sparkassen or savings offices throughout Germany have increased by about 680 million reichsmarks within the past six months and at the end of April, 1926, stood at about 11 per cent of the total before the war. The savings deposits of the country had almost totally vanished in consequence of the inflation, and in the first months of stabilization very slow progress was made in the accumulation of new savings. It was not until the autumn of 1925 that total figures for Germany were again periodically published. The more rapid rate of increase reported in 1926 is partially explained on the ground that cash, particularly of small holders, is tending to flow to the savings banks because of the relatively high interest obtained.

(In thousands of reichsmarks)

End of month	Savings deposits in Germany	Month-to-month increase
September, 1925	1,392,017	74,513
October	1,475,306	83,283
November	1,559,199	83,899
December	1,631,960	72,761
January, 1926	1,799,506	167,546[1]
February	1,937,537	138,031
March	2,044,636	107,099
April	2,155,263	110,627

[1] Including interest.

(3) *Private bank credit.*—The statements of six of the largest private banks, representing about three-quarters of the banking strength of all non-public banks in Germany, show a resumption in March and April, 1926, of the growth which was interrupted in the early months of the year. On the assets side of the account, the expansion was mainly in the holdings of bills eligible for rediscount, thereby partially explaining the shortened portfolio of the Reichsbank. It is probable, also, that recently there has been a growth in the proportion that foreign bills bear to the total volume of bills held. The creation of new domestic bills has shown a tendency to lag, which is borne out by the stationary level of the banks' acceptance liabilities.

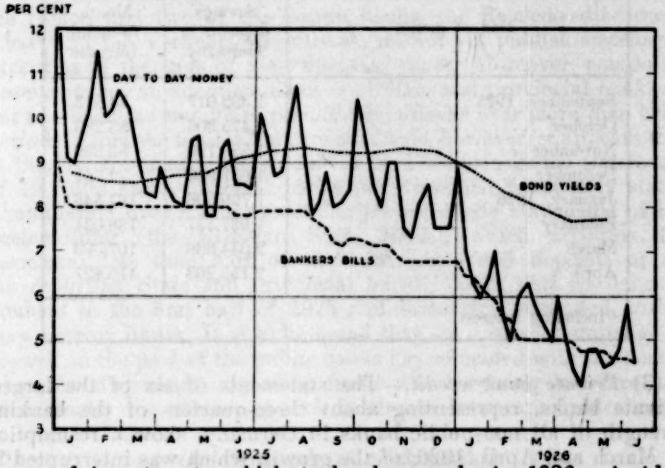
(In thousands of reichsmarks)

	April 30, 1926	February 28, 1926	December 31, 1925	October 31, 1925	December 31, 1924
Cash and amounts due from banks	712,598	740,965	891,140	746,136	823,719
Bills and treasury notes	1,382,632	1,243,262	1,248,948	1,141,798	860,289
Loans and advances	3,069,163	3,023,953	2,865,971	2,884,752	1,780,002
"Gläubiger",—mainly time and demand deposits	4,731,774	4,530,230	4,519,564	4,330,153	3,192,570
Acceptance liabilities	229,848	229,114	230,589	245,767	19,738

d. Money and security markets.

The increasing ease of money at short term, characteristic of this period, has already been mentioned and is further illustrated in the diagram below. In comparison with two characteristic short-term money rates, the diagram shows the rate of return on a group of selected bonds at prevailing market prices. It will be observed that during 1925 there was on the whole very little advantage in

holding bonds as against investing in the most liquid kind of short-term obligations. The widening of the spread between the two



forms of investments which took place early in 1926 coincided with the time when the German market for domestic longer-term issues again became active.

VII. Germany's Foreign Trade.

The foreign trade of Germany, during the six months which have passed since the last Report, has continued under the influence of unusual conditions. There has, on the one hand, been an internal business depression of exceptional severity, while at the same time foreign markets have been restricted, not merely by the barriers erected against the freedom of trade but also by the continued depreciation of currencies in many of the neighboring countries. German export trade has, however, shown an increasing tendency to develop and during the past six months there has been a substantial excess of exports over imports. The period is too short and the conditions too exceptional to justify drawing conclusions for the future on this basis, but the movement of imports and exports during these months is none the less of the utmost interest.

a. The trade balance.

According to the official figures published by the Statistical Office of the Reich, exports and imports have been practically in balance during the first eight months of the second Annuity year. The excess of exports for the entire period amounted to 17.8 millions of reichsmarks. For the last five months of the period exports have exceeded imports by a total of 570.8 million reichsmarks, while for the preceding three months there had been a steadily decreasing excess of imports, aggregating 553 millions of reichsmarks. The turning point apparently came with the month of November, 1925, when the excess of imports, which for some time previously had been heavy, was reduced to 60.9 million reichs-

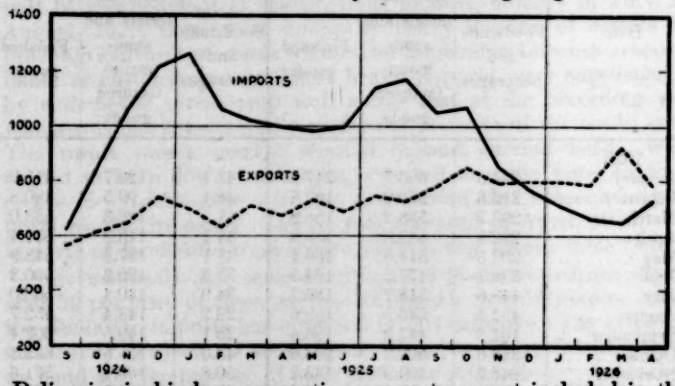
marks. In December, 1925, the figures showed, for the first time since August, 1924, an excess of exports, amounting to 27.7 million reichsmarks for the month. This export balance increased each month until it reached 277.8 million reichsmarks in March, 1926, but it declined again to 56.2 million reichsmarks in April.

The following table gives the figures for imports and exports during the first eight months of the second Annuity year (excluding movements of the precious metals and exports of deliveries in kind):

(In millions of reichsmarks)

Date	Imports		Exports		Monthly excess	
	Total for month	Daily average	Total for month	Daily average	Imports	Exports
1925						
September	1,047.0	34.9	777.7	25.9	269.3	
October	1,068.2	34.5	845.4	27.3	222.8	
November	852.0	28.4	791.1	26.4	60.9	
December	766.5	24.7	794.2	25.6		27.7
1926						
January	707.3	22.8	795.3	25.7		88.0
February	661.8	23.6	782.9	28.0		121.1
March	645.3	20.8	923.1	29.8		277.8
April	723.1	24.1	779.3	26.0		56.2

The figures show that the favorable development of the trade balance has been largely due, first, to the fairly constant decline in imports, and, second, to the general upward trend of exports, particularly as compared with the previous twelve months. These tendencies are further illustrated by the following diagram:



Deliveries in kind on reparation account are not included in the official export figures, but are estimated, on the basis of the transactions of the Agent General's office, to have gone forward during the first nine months of the second Annuity year in approximately the following amounts:

(Amounts in gold marks)

Month	
1925 September	47,386,584
October	52,189,211
November	48,159,423
December	57,057,847
1926 January	50,836,455
February	58,633,448
March	60,339,266
April	57,316,133
May	54,811,475
	486,729,842

Payments under the British and French Reparation Recovery Acts are included in the official figures of German exports to those countries, and therefore need not be separately stated.

b. Detailed analysis of imports and exports.

An examination of the detailed figures discloses a number of significant tendencies in the distribution of imports and exports according to the different groups.

Generally speaking, all groups of imports have participated in the decline, while the two principal categories of exports, namely, finished products and raw materials and semi-manufactured products, have maintained fairly consistent upward trends. The following table gives monthly figures for the three principal groups of imports and exports during 1925 and the first four months of 1926 (omitting only live stock, a group which accounts for a relatively insignificant portion of the totals):

(In millions of reichsmarks)

Date	Imports			Exports		
	Foodstuffs and beverages	Raw materials and semi-manufactured goods	Finished goods	Foodstuffs and beverages	Raw materials and semi-manufactured goods	Finished goods
1925						
January	344.6	666.7	247.2	48.1	129.7	515.9
February	316.6	576.0	162.8	48.1	99.5	480.8
March	293.7	558.2	158.8	51.5	122.3	533.0
April	292.5	532.3	159.8	44.1	113.3	511.4
May	292.5	511.6	166.4	41.1	137.8	548.9
June	338.3	477.2	164.5	35.3	120.2	530.3
July	448.6	518.7	156.7	34.9	140.4	568.0
August	452.2	546.5	159.6	29.2	143.4	552.7
September	401.2	447.2	186.4	25.1	149.5	602.4
October	352.6	502.2	203.6	43.6	155.5	645.2
November	246.7	464.9	133.2	50.8	166.4	571.6
December	243.3	411.1	106.4	65.3	162.5	565.5
1926						
January	224.4	378.3	99.5	66.2	160.0	568.2
February	227.1	332.7	96.7	50.3	167.5	564.0
March	220.0	331.6	85.6	45.2	190.5	686.4
April	267.6	357.0	90.4	28.3	152.9	597.4

By comparing the figures for the main categories of foreign trade during the last six months with those for the corresponding period from November, 1924, to April, 1925, the importance of recent developments will be seen. It is not possible, as would be desirable, to make comparisons over a longer period because not until December, 1924, were figures fully reported from the occupied territories. The omissions in the figures for November, 1924, are probably not sufficient, however, to affect the substance of the comparison between the two six-months' periods:

Imports of foodstuffs and beverages declined	620 millions, or 30 per cent,
Imports of raw materials and semi-manufactured products declined	1,106 millions, or 33 per cent,
Imports of finished goods declined	495 millions, or 45 per cent,
Imports of all categories declined	2,234 millions, or 34 per cent,
Exports of foodstuffs and beverages increased	9 millions, or 3 per cent,
Exports of raw materials and semi-manufactured products increased	311 millions, or 45 per cent,
Exports of finished goods increased	463 millions, or 15 per cent,
Exports of all categories increased	777 millions, or 19 per cent.

The change within the past six months from an import to an export balance, while in part attributable to a gradual and orderly adjustment of Germany's foreign trade to new conditions, was no doubt influenced by factors more or less temporary, which operated especially to depress the volume of imports during this period. It will be recalled that in the previous months, notably in July and August, 1925, there were unusually heavy imports of cereals and other agricultural products which after September 1st were to become liable to customs duties. These heavy imports were supplemented by a domestic cereal crop well above that of the preceding year, which was marketed rapidly under the pressure of the credit crisis. The result was a market stocked beyond current needs, which tended to keep down further imports and to cause some slight increase in exports, even with the expectation that subsequently imports would rise again. This in fact occurred in April, 1926, when imports of foodstuffs were higher than in any month since October.

Raw materials and semi-manufactured goods constitute slightly over 50 per cent of Germany's total imports and the greater part of the decline in imports has occurred in this category. The causes are necessarily conjectural since figures showing the stocks of material on hand and the passage of such materials into industry are lacking. But it is probable that the industrial crisis was a determining influence toward restricting such imports, inducing manufacturers to rely as much as possible on accumulated stocks and more or less to limit production. Decreases are shown in the import figures for almost every class of raw materials, among the largest those which

supply the textile industry. In this case an important element in the lower figures was the decline in the prices of cotton and wool, particularly the latter. In consequence, the fall in tonnage imported was not as large as the decline in money value. As in the case of foodstuffs, there was a rise in April in the figures for imports of raw materials.

Perhaps the most favorable development of the trade figures has been the growth in exports of finished goods, though this in part was stimulated by the credit needs and the narrower market at home on account of the business crisis. Substantial increases have occurred in practically all types of manufactured products.

VIII. Readjustment of the German Economy.

The winter months of 1925 and 1926 were in some respects the most difficult since stabilization. The severe unemployment and unusually numerous business failures which marked this period cannot be regarded, however, as isolated phenomena but must be viewed as parts of the long process of readjustment from the chaotic conditions of inflation. Nor can these signs of crisis be regarded as peculiar to Germany. Other countries which have brought their currencies back to the gold basis after longer or shorter periods of inflation have in due course undergone similar hardships, though they have varied somewhat in intensity. They are the usual and probably essential conditions to recovery.

It is clear that material progress has been made in simplifying organization and reducing costs of production. In part this has been done by consolidating concerns in similar lines of business but in large part it is the result of careful study of productive methods and improved utilization of labor. Difficulties in the way of getting credit during 1925 and the need for broadening markets had much to do with bringing these developments. The business crisis forced manufacturers and distributors to reduce costs, and this led inevitably to reductions of staff. Thus the pressure exerted during the earlier stage of the business crisis made the later stage more acute and greatly increased unemployment. Exact figures for these developments are not available but it is evident that substantial progress has been made in increasing the output per worker and in operating more economically.

The business crisis, as reflected in unemployment, commercial failures, curtailed production of iron and steel and in a reduced volume of railway traffic, reached its apex in January and February. Since then there has been a gradual improvement in all of these factors, though in some the movement has been slower than in others. It is impossible to forecast how far this gain can be held, but in general the processes of readjustment appear to have followed sound principles.

a. Physical volume of production.

The figures thus far available which have a bearing on the physical production of Germany in recent months relate to very few industries. Though they are of high importance, their condi-

tion is not necessarily more than an indication of the condition of German industry as a whole.

(1) *Coal and lignite.*—As will be observed from the following figures, the production of coal and lignite in Germany in the first four months of 1926 has been very slightly below that of the corresponding months of 1925, and also slightly below the monthly average of that year. The difference, however, is not marked. In the third column of the table, the lignite production has been converted into its coal equivalent at the minimum ratio of 9 : 2.

(In thousands of metric tons)

	Coal	Lignite	Coal and Coal equivalent of Lignite
Total 1913 (old frontiers)	190,109	87,233	209,495
Total 1913 (present frontiers)	140,753	87,228	160,137
Total 1925	132,729	139,790	163,793
1925			
January	11,929	12,375	14,679
February	10,535	11,153	13,013
March	11,412	12,081	14,097
April	10,362	10,719	12,744
May	10,437	10,437	12,756
June	9,891	10,388	12,199
July	11,240	11,650	13,829
August	11,061	11,463	13,608
September	11,355	11,949	14,010
October	11,950	12,759	14,785
November	11,189	11,940	13,842
December	11,673	12,712	14,192
Monthly average 1925	11,061	11,649	13,649
1926			
January	11,190	12,222	13,906
February	10,611	11,115	13,081
March	11,424	11,835	14,054
April	10,086	10,067	12,323

It is noteworthy that in the Ruhr coalfields the reduction in the number of workers has much more than kept pace with the reduction of output. Whereas in February, 1925, the output per worker was 80 per cent of the output per worker in 1913, at the beginning of 1926 it had reached the 1913 standard.

(2) *Iron and steel.* — In contrast with the fairly well-sustained production of coal and lignite, the output of iron and steel has been relatively low since the late summer of 1925. After a period running into July of that year, when iron and steel production compared well, area for area, with previous experience, the market turned unfavorable and production proceeded at a lower rate. During the winter of 1925-1926 the output ran, roughly speaking, as much as 25 per cent under the corresponding period of the year before. By April, 1926, steel production was again slightly larger, but the output of iron was still seriously reduced.

(In metric tons)

	Pig-Iron	Steel
1913 (old frontiers).....	16,763,800	17,147,400
1913 (present frontiers) ...	10,915,700	11,768,400
1925.....	10,176,699	12,194,501
1925		
January.....	909,849	1,180,915
February.....	873,319	1,155,351
March.....	990,606	1,209,455
April.....	896,362	1,064,420
May.....	960,541	1,114,746
June.....	941,201	1,108,793
July.....	885,880	1,031,065
August.....	765,901	899,087
September.....	734,935	875,933
October.....	740,741	916,609
November.....	760,353	873,484
December.....	717,011	764,643
Monthly average 1925	848,058	1,016,208
1926		
January.....	689,463	790.976
February.....	631,367	815,991
March.....	716,654	949,762
April.....	668,203	868,557

(3) *Potash.*—The sales of the Potash Syndicate, while not explicitly dealing with production, nevertheless give a fair indication of the volume of potash mined in Germany. A comparison over three years, with the months arranged on a seasonal basis, indicates a volume of sales in the year just closed which is only slightly below that in the preceding year. Figures in the following table are given in terms of pure potash.

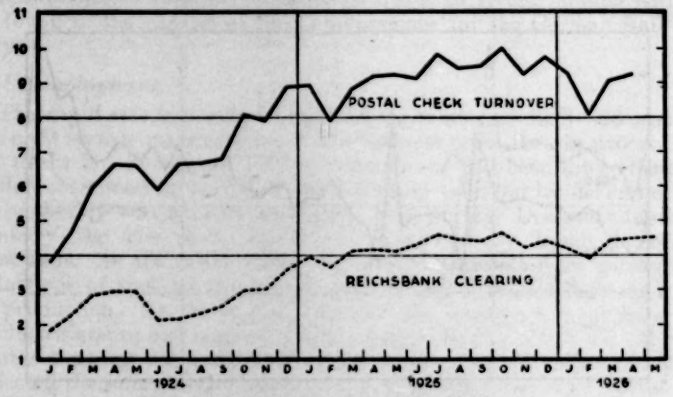
(In metric tons)

Period	1923-1924	1924-1925	1925-1926
May	120,766	22,043	73,074
June	184,851	27,654	81,447
July	115,598	47,298	95,603
August	66,442	102,491	104,437
September	50,724	127,171	101,196
October	22,251	78,711	73,538
November	33,443	74,065	57,605
December	38,759	84,818	58,921
January	40,800	166,546	94,866
February	72,108	201,868	185,510
March	108,836	143,959	139,118
April	56,066	66,773	57,290
Total	910,644	1,143,397	1,122,605

b. Business activity.

As in the case of industrial production, there are not many available series of figures showing the course of business activity in Germany, and too close deductions cannot be made from such figures as can be had.

The volume of funds transferred through the clearing section of the Reichsbank and the postal check system, commonly taken as an index of business activity, rose fairly steadily from the summer of 1924 to the summer of 1925, and thereafter slowed down. In midwinter there was a decline which brought the figures in both cases down to approximately what they were a year before. Since February the tendency has again been upward.



Reichsbank clearings and postal check turnover.
(Monthly totals in milliards of reichsmarks.)

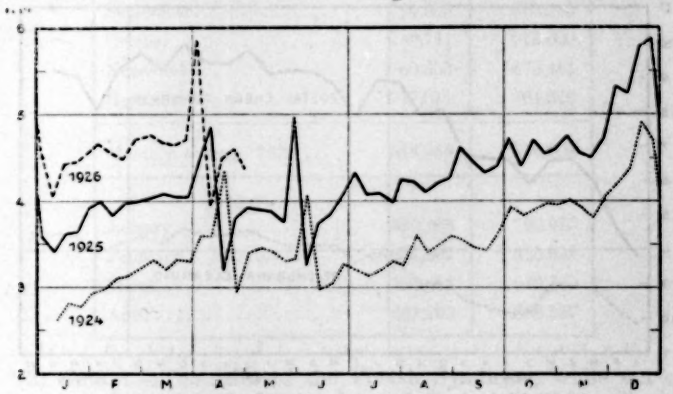
The receipts from the turnover tax also give some indication of the volume of trade, and in fact show much the same changes as the bank clearings. The following table takes account of the reductions that have been made in the rate of tax and also ap-

proximately of the lapse of time before transactions subject to tax are reflected in the receipts. In interpreting the figures some allowance should be made for improvement in the processes of collection which may tend to expand unduly the estimates of turnover.

(In millions of reichsmarks)

Tax collection periods.	Receipts	Related business periods	Tax rate (per cent)	Estimated Turnover	Per cent of first quarter 1924
Feb.-April 1924 ..	378.0	Jan.-March 1924..	2½	15,121	100·0
May-July 1924 ...	422·3	April-June 1924 ..	2½	16,892	111·7
Aug.-Oct. 1924 ...	481·6	July-Sept. 1924 ..	2½	19,265	127·4
Nov. 1924-Jan. 1925	494·4	Oct.-Dec. 1924 ...	2	24,722	163·5
Feb.-April 1925...	376·7	Jan.-March 1925 ..	1½	25,112	166·1
May-July 1925 ...	379·4	April-June 1925 ..	1½	25,294	167·3
Aug.-Oct. 1925 ...	389·4	July-Sept. 1925 ..	1½	25,962	171·7
Nov. 1925-Jan. 1926	292·0	Oct.-Dec. 1925 ...	1	29,202	193·1
Feb.-April 1926...	240 0	Jan.-March 1926..	1	23,999	158·7

The average weekly purchase, chiefly of foodstuffs, made by each of the 1,700,000 members of German co-operative stores has progressed since the beginning of 1924 with remarkable regularity. Except for the general upward trend the changes appear to be purely seasonal and reflect with some accuracy the recurrence of the principal holidays. The average weekly purchase per member during the first four months of 1926 was 4.59 reichsmarks compared with 3.93 reichsmarks during the corresponding period of 1925, and 3.22 reichsmarks for 1924. The average for 1913 was 5.60 marks.

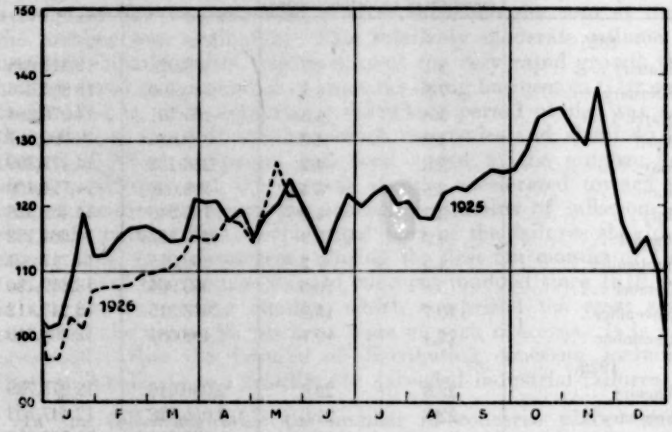


Co-operative stores — Each member's average weekly purchase.
(In reichsmarks)

c. Transport.

Up to late November, 1925, freight car loadings on the German railways, as measured by the number of cars placed at the disposal of shippers, had tended generally to increase. Thereafter a sharp decline occurred, which went much beyond what could be accounted

for on seasonal grounds. Relative depression continued through the early spring of 1926, and it was not until mid-April that freight car loadings again approximated those of the previous year. These changes are illustrated in the following diagram.



Freight car loadings — (Number of cars placed at the disposal of shippers). (Daily averages in thousands of cars.)

The weekly gross receipts of the German Railway Company show somewhat wider fluctuations than the volume of freight car loadings would suggest, but except for the fact that the volume of receipts reached the maximum at an earlier time, the general tendency is not dissimilar.

More detailed comment on railway traffic in recent months will be found in the Report of the Commissioner for the German Railways.

d. Unemployment.

The rapid rise in unemployment in the winter of 1925—26 was the most serious manifestation of the business crisis then in process. Up to the late autumn of 1925 unemployment had been lower than at the corresponding period of the preceding year, but by the end of November it was rapidly mounting, and during December and January the rise each week was measured by hundreds of thousands. As the crisis progressed it was augmented by general reductions of staff by employers endeavoring to reduce their costs of production. By the end of January the unemployed receiving public assistance had reached a total of more than two millions. The figures showing the number of trades union members unemployed reflected the same developments, and in midwinter reports from the trades unions indicated that nearly one-quarter of their membership was out of work, and another quarter employed at part time. Figures showing the number of employees registered for public health insurance, while not fully comparable from month to month on account of variation in the number of reporting offices, illustrated by their decline the growth of unemployment during this period.

End of month	Trades Union Members		Unemployed receiving public assistance	Employees registered for public health insurance
	Unemployed	Employed part time		
	(in percentages of total members of reporting unions)			
1925				
January	8.1	4.7	593,024	12,843,088
February	7.3	4.5	540,460	12,805,046
March	5.8	4.3	465,761	14,076,284
April	4.3	4.2	319,656	13,902,307
May	3.6	4.2	233,463	14,473,399
June	3.5	4 4	195,099	14,714,469
July	3.7	4.9	197,248	14,459,328
August	4.3	5.9	230,727	14,301,182
September	4.5	7.2	266,078	14,717,001
October	5.8	10.9	363,961	13,810,730
November	10.7	15.9	673,315	13,247,412
December	19.4	19.1	1,498,681	12,303,310
1926				
January	22.6	22.6	2,030,646	12,275,739
February	22.0	21.6	2,055,928	12,447,103
March	21.4	21.7	1,942,011	12,763,613
April	18.6	19.1	1,781,509	13,231,746

The figures in the foregoing table showing the number of unemployed receiving public assistance were somewhat swollen in the later stages of acute unemployment because the public authorities extended the periods for which unemployment relief was granted beyond what would have been allowed in less abnormal times, and also included some categories of workers not ordinarily eligible. The moderate decline in unemployment as spring progressed, is attributable in part to some improvement in general business conditions, but was doubtless largely due to the recurrence of seasonal demands for agricultural laborers, and for workers in the building trades and other forms of out-door activity.

Unemployment still remains at an exceedingly high level, and its decline has been disappointingly slow. In the main, it reflects the continued state of depression in many branches of German industry, though no doubt it results also, to some extent at least, from the reductions in staff that have accompanied the general effort of German business and industry to reorganize production on a lower basis of costs.

e. Commercial failures.

Next to the rising number of workers unemployed the most direct reflection of the business crisis of the winter was the increase in the volume of commercial failures and in the number of concerns placed under public supervision. It is difficult to estimate the gravity of the development in its general effects upon German business because the size of liabilities involved has not been reported. In point of numbers, however, the total of business failures rose in January to more than double the number regarded as normal before the war.

Prior to this period of rapid rise, commercial failures, as distinguished from concerns placed under supervision, had been running ever since stabilization at a figure more or less below the 1913 average. From January, 1924, to August, 1925, the pre-war average of 815 was exceeded in only three months, and at times the number was negligible. This relatively moderate volume of business embarrassment was in spite of the very rapid growth that had occurred in the number of concerns doing business in Germany. From 1914 to 1923, comprising the whole period of the war and the inflation, about 10,000 new stock companies and about 45,000 limited liability companies had been added to the number previously existing, and this growth became accelerated toward the end of the period, under the unhealthy stimulus of inflation. It was only natural that the principal part of the failures should be among these newer concerns; during the first ten months of 1925 two-thirds of the failures were of concerns founded since 1919, and in the five succeeding months, which comprised the most acute period of the crisis, 58 per cent were of such concerns. It is also noteworthy that the failures of distributing concerns, including those in wholesale and retail trade, exceeded industrial failures.

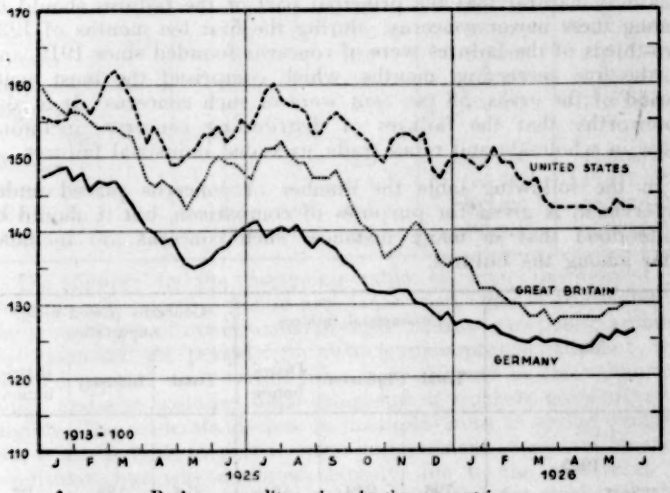
In the following table the number of concerns placed under supervision is given for purposes of comparison, but it should be understood that in many instances such concerns are included later among the failures.

Month	Commercial failures			Concerns placed under supervision		
	Total	Industry	Distribution	Total	Industry	Distribution
1925						
January	796	249	424	256	123	96
February	723	215	397	240	90	102
March	776	229	430	309	134	127
April	687	237	345	223	100	102
May	807	273	429	351	146	167
June	766	262	409	328	143	157
July	797	291	403	375	154	178
August	751	265	379	379	180	163
September	914	378	424	459	220	183
October	1,164	464	541	633	282	264
November	1,343	508	649	967	459	396
December	1,660	654	797	1,388	630	572
1926						
January	2,092	694	1,068	1,553	584	723
February	1,998	632	1,015	1,573	514	762
March	1,871	574	993	1,481	480	766
April	1,302	409	692	923	291	489

f. Commodity prices.

The general course of German wholesale prices was downward from midsummer in 1925, until April, 1926. Since then wholesale prices have risen but the increase thus far has been too slight to give any indications of its importance.

The downward movement from July to April was in part a reflection of price declines in other countries which like Germany base their currencies on gold. Some impression of the strength of this international movement is given in the following diagram, which traces the price tendencies for groups of basic commodities of generally similar importance to each of the countries concerned.



Basic commodity prices in three countries.
(Average for 1913 = 100.)
(Indexes for Great Britain and the United States prepared by Federal Reserve Bank of New York. Index for Germany prepared by the Economic Service.)

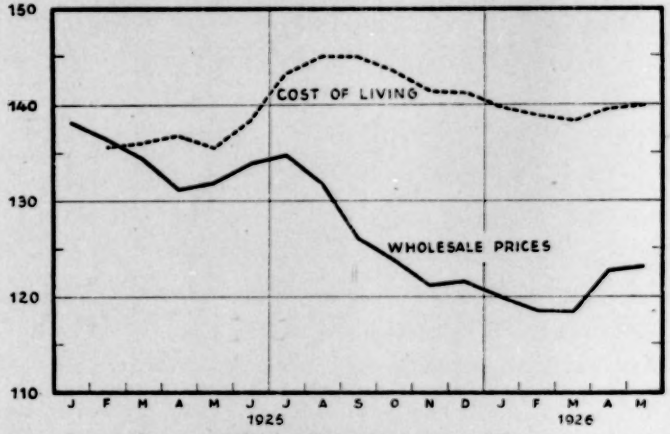
The index numbers illustrated in the foregoing diagram show price-changes in terms of the 1913 average and so do not compare the present price-levels in the several countries in terms of money. But there is a striking similarity of movement in recent months which suggests that some part at least of the recent decline in German prices has been due to other than local causes.

The following table gives the wholesale price index numbers of the Reich Statistical Office and compares the movements of the various groups composing it. The basis is that of the average for 1913 as 100.

(Monthly Averages)

Commodity Groups	July 1925	January 1926	February 1926	March 1926	April 1926	May 1926
1. Cereals and potatoes	129.1	101.0	98.2	99.4	112.1	113.8
2. Fats, sugar, meat, fish	136.0	133.6	133.8	134.3	132.2	132.8
3. Colonial goods and hops	179.1	185.2	182.9	179.7	179.6	178.6
4. Hides and leather	125.8	112.9	109.6	106.9	106.5	105.5
5. Textiles	190.9	176.3	172.4	165.1	158.4	153.3
6. Metals and mineral oils	131.3	127.8	127.0	126.6	124.1	124.0
7. Coal and iron	122.7	119.8	119.9	119.8	117.4	117.4
Agricultural products	134.2	114.5	112.4	113.1	121.5	122.8
Industrial materials	135.8	130.4	129.5	128.0	124.9	124.0
Domestic goods	128.6	112.1	110.6	111.3	117.2	118.2
Imported goods	165.5	159.7	157.2	153.3	150.1	147.9
General Index	134.8	120.0	118.4	118.3	122.7	123.2

It will be observed that since the beginning of April there has been some recovery in the prices of farm products, but that the marked decline in textile prices which has been long in progress continued to the end of the period. It is also to be observed that the prices of goods imported into Germany declined slightly more than those of goods produced at home.



German wholesale prices and the cost of living.
(Wholesale prices, average for 1913 = 100.)
(Cost of living, average for 4 months in 1913-14 = 100.)
(Indexes of Reich Statistical Office.)

The cost of living has moved very slowly downward from a maximum of 145 in September, 1925, to 138 in March, since when it has risen slightly. In comparison with the decline in wholesale prices, the change has not been important, but it is usual for retail prices, which bear directly on the cost of living, to move within narrower limits than prices of commodities at wholesale. Exclusive

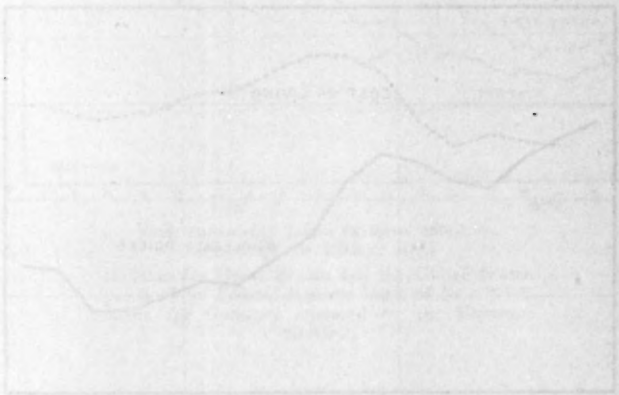
of the item of rent, the cost of living as estimated by the Reich Statistical Office declined somewhat more than the cost of living index with rent included. Rent, which is still under official control, is gradually being permitted to rise to the pre-war level.

IX. Conclusion.

The fundamental basis of the Experts' Plan is the mutual interest of all the parties to carry it out in good faith. During the period covered by this Report, as from the beginning of the operation of the Plan, the Allied Governments, the German Government, and all the agencies concerned in its execution have continued to work together loyally and in a spirit of friendly cooperation.

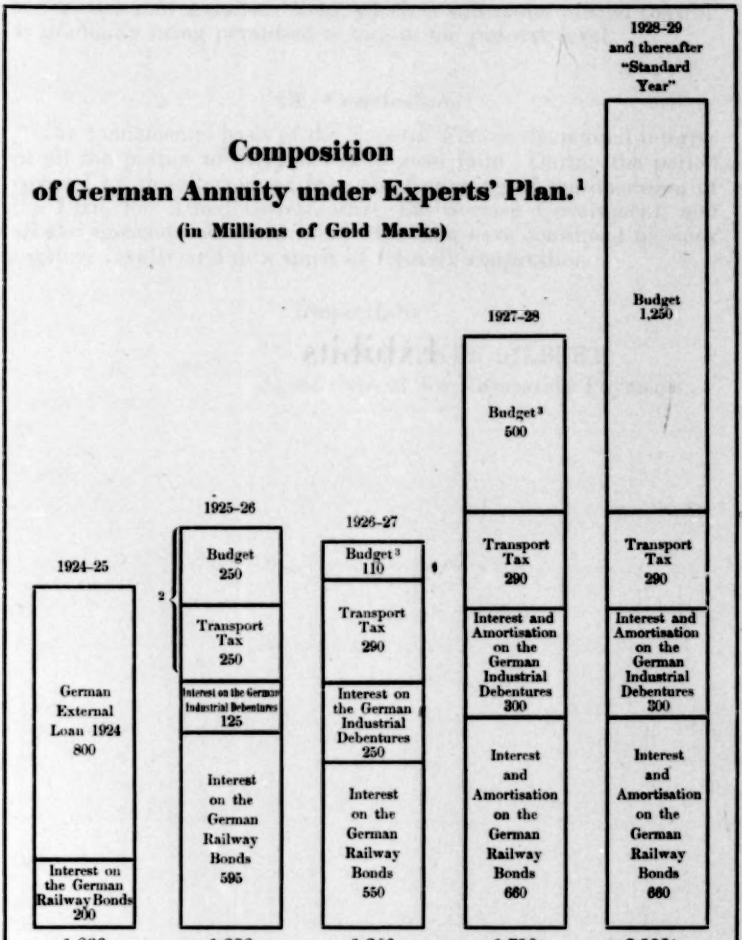
Respectfully,

S. PARKER GILBERT,
Agent General for Reparation Payments.



Exhibits

Exhibit I.



1 The Annuity year extends from September 1st to August 31st.

2 The Experts' Plan assumed that before the end of the year 1925-26 the German Government would be in effective possession of 500,000,000 gold marks (a sum equivalent to these two payments) as its share of the proceeds of the sale to the public of the preference shares of the German Railway Company. In fact, however, an arrangement was concluded between the German Government and the German Railway Company whereby the latter issued to the German Government the first 500,000,000 gold marks, nominal amount, of its preference shares in satisfaction of the Government's claim to share in the proceeds of the sale of preference shares, subject to the right of the Company to reobtain possession of the shares, on agreed conditions, for the purpose of sale to the public.

3 Subject to modification, to an amount not exceeding 250,000,000 gold marks, according as the aggregate yield of the controlled revenues exceeds or falls short of 1,000,000,000 gold marks in 1926-27, or 1,250,000,000 gold marks in 1927-28. The modification is further limited to 1/3 of the excess or deficit, as the case may be, and is to be taken up in the succeeding year, all as provided in the Plan and the London Agreement.

4 Subject to increase, as from 1929-30 onwards, depending on the Index of Prosperity described in the Plan.

Exhibit II.

Revised Distribution of Second Annuity — Showing Shares of the Respective Powers.

(In thousands of gold marks.)

	Army Costs		Belgian War Debt	Restitution	American Claims	Reparations	Total Share
	Arrears	Current					
1. France	11,400	110,000	21,212	5,670	—	441,699	589,981
2. British Empire	8,600	25,000	18,215	128	—	186,872	238,815
3. Italy	—	—	—	110	—	84,942	85,052
4. Belgium	—	25,000	6,795	2,835	—	67,954	102,584
5. Serb-Croat-Slovene State	—	—	—	91	—	42,471	42,562
6. United States of America	—	—	—	—	19,552	—	19,552
7. Rumania	—	—	—	246	—	9,344	9,590
8. Japan	—	—	—	—	—	6,371	6,371
9. Portugal	—	—	—	—	—	6,371	6,371
10. Greece	—	—	—	—	—	3,398	3,398
11. Poland	—	—	—	164	—	—	164
Totals	20,000	160,000	46,222	9,244	19,552	849,422	1,104,440
						Service of German External Loan ...	92,260
						Costs of Inter-Allied Commissions ...	23,300
						Total of Second Annuity	1,220,000

Exhi

Balance Sheet of the Agent General for

Assets	Gold Marks
I. **Bank Balances** and other funds available upon demand valued at the fine gold rate	89,839,182.46
II. **Annuity funds accrued but not due**	93,574,933.71
III. **Advance Payments.**— Advances to Trustees of German External Loan, 1924	3,893,234.65
	187,307,350.82

bit III.

Reparation Payments — May 31, 1926.

Liabilities	Gold Marks	Gold Marks
IV. Accounts Payable.		
(*a*) Suspense Account for Requisitions and Damages under Art. 6 of the Rhineland Agreement as claimed by German Government	6,000,000.—	
(*b*) Reparation Recovery Acts — balances owing to German exporters calculated from certificates of collections given by French and British Governments	3,498,106.63	
(*c*) Deliveries of coal, coke and lignite as estimated by Reparation Commission Office for Deliveries in Kind	20,752,116.41	
(*d*) Transport of coal, coke and lignite as per information supplied by National Representatives	3,243,384.69	
(*e*) Deliveries of dyestuffs and pharmaceutical products	290,001.45	
(*f*) Deliveries of chemical fertilisers and nitrogenous products	42,453.20	
(*g*) Deliveries of coal by-products	242,535.03	
(*h*) Deliveries of refractory earths	4,298.85	
(*i*) Deliveries of agricultural products	186,739.89	
(*j*) Deliveries of timber	870,986.82	
(*k*) Deliveries of sugar	410,810.14	
(*l*) Miscellaneous deliveries	6,510,626.31	42,052,059.42
V. Allied and Associated Powers — funds allocated and uncovered by payments or outstanding liabilities calculated on the basis of the schedules of distribution of the First and Second Annuities as provisionally adopted by the Reparation Commission:		
(*a*) France	30,362,444.03	
(*b*) British Empire	2,250.37	
(*c*) Italy	7,721,584.71	
(*d*) Belgium	7,987,283.72	
(*e*) Serb-Croat-Slovene State	4,257,643.91	
(*f*) United States of America	28,884,932.66	
(*g*) Rumania	237,877.17	
(*h*) Japan	5,125,044.85	
(*i*) Portugal	12,315.55	
(*j*) Greece	10,820.04	
(*k*) Poland	2,589.04	84,604,786.05
VI. Funds Unallocated.		
(*a*) Annuity Income not available for allocation	56,399,183.11	
(*b*) Appropriations for Prior Charges not required for that purpose	3,749,751.88	
(*c*) Interest received and difference in exchange	501,570.36	60,650,505.35
		187,307,350.82

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Statement showing Receipts and Payments of the Agent September 1, 1925,

Receipts	Gold Marks
I. **Budgetary Contribution**	190,000,000.—
II. **Transport Tax**	168,925,066.29
III. **Railway Reparation Bonds** — Interest received from Deutsche Reichsbahn Gesellschaft	400,000,000.—
IV. **Industrial Debentures** — Interest received from Bank for Industrial Debentures	62,500,000.—
V. **Interest received**	1,869,916.38
Total receipts	823,294,982.67
VI. **Balance of Cash at September 1, 1925**	107,013,270.89
	930,308,253.56

bit IV.

General for Reparation Payments during the Period to May 31, 1926.

Payments	Gold Marks	Gold Marks
VII. Allied Powers:		
(a) France:		
1. Marks supplied to Army of Occupation	23,715,477.85	
2. Furnishings to Army under Arts. 8—12 of Rhineland Agreement	22,511,049.93	
3. Reparation Recovery Act	30,043,557.40	
4. Deliveries of coal, coke and lignite	139,021,331.98	
5. Transport of coal, coke and lignite	49,296,447.55	
6. Deliveries of dyestuffs and pharmaceutical products	1,388,859.69	
7. Deliveries of chemical fertilisers and nitrogenous products	39,654,829.84	
8. Deliveries of coal by-products	1,718,145.28	
9. Deliveries of refractory earths	69,638.84	
10. Deliveries of agricultural products	12,545,049.52	
11. Deliveries of timber	12,040,973.40	
12. Deliveries of sugar	4,709,935.72	
13. Miscellaneous deliveries	59,723,489.09	
14. Miscellaneous payments	1,696,145.62	
15. Cash Transfers:—		
(1) Liquidation of the accounts of the Franco-Belgian Railway Regie	5,007,229.01	
(2) Settlement of balances owing for deliveries made or services rendered by the German Government prior to September 1, 1924	350,000.00	403,462,160.72
(b) British Empire:		
1. Marks supplied to Army of Occupation	10,426,882.59	
2. Furnishings to Army under Arts. 8—12 of Rhineland Agreement	5,034,137.21	
3. Reparation Recovery Act	150,816,001.22	
4. Cash Transfer:—		
Settlement of balances owing for deliveries made or services rendered by the German Government prior to September 1, 1924	312,500.00	166,589,521.02
(c) Italy:		
1. Deliveries of coal, coke and lignite	32,687,170.17	
2. Transport of coal, coke and lignite	9,915,498.77	
3. Deliveries of dyestuffs and pharmaceutical products	2,707,813.15	
4. Miscellaneous deliveries	4,746,603.76	50,057,085.85
(d) Belgium:		
1. Marks supplied to Army of Occupation	2,185,230.27	
2. Furnishings to Army under Arts. 8—12 of Rhineland Agreement	5,164,440.85	
3. Deliveries of coal, coke and lignite	33,109,949.80	
4. Transport of coal, coke and lignite	8,769,498.48	
5. Deliveries of dyestuffs and pharmaceutical products	3,699,545.66	
6. Deliveries of chemical fertilisers and nitrogenous products	2,935,197.64	
7. Deliveries of coal by-products	1,954,782.02	
8. Deliveries of timber	3,739,280.88	
9. Miscellaneous deliveries	22,864,299.46	
10. Miscellaneous payments	21,017.43	84,443,242.49
(e) Serb-Croat-Slovene State:		
1. Deliveries of pharmaceutical products	93,361.10	
2. Miscellaneous deliveries	27,616,237.51	
3. Miscellaneous payments	171,438.51	27,881,037.12
(f) Rumania:		
Miscellaneous deliveries		6,405,403.55
(g) Japan:		
1. Deliveries of dyestuffs	Dr. 10,112.70	
2. Miscellaneous deliveries	380,893.93	370,781.23
(h) Portugal:		
Miscellaneous deliveries		4,676,795.34
(i) Greece:		
Miscellaneous deliveries		2,297,207.93
(j) Poland:		
1. Deliveries of agricultural products	72,031.89	
2. Miscellaneous payments	8,411.06	
3. Cash Transfers:—		
Settlement of balances owing for deliveries made or services rendered by the German Government prior to September 1, 1924	11,512.29	91,955.24
Total in respect of Powers		746,275,190.49
VIII. Service of German External Loan 1924:		72,557,419.54
IX. Inter-Allied Commissions:		
1. Reparation Commission	2,694,585.84	
2. Office for Reparation Payments	2,775,015.78	
3. Rhineland High Commission	8,162,711.45	
4. Military Commission of Control	3,907,261.69	15,539,574.76
X. Costs of Arbitral Bodies		37,545.27
XI. Discount on payments made by Deutsche Reichsbahn Gesellschaft in advance of due date		5,907,557.40
XII. Loss in exchange		151,783.64
Total payments		840,469,071.10
XIII. Balance of Cash at May 31, 1926		89,839,182.46
		930,308,253.56

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Distribution among the Powers of Amounts September 1, 1925,

	Amounts available for expenditure September 1, 1925 to May 31, 1926 Gold Marks	Total payments September 1, 1925 to May 31, 1926 Gold Marks
1. France	461,730,004.17	403,462,160.72
2. British Empire	166,384,061.30	166,589,521.02
3. Italy	65,196,575.84	50,057,085.85
4. Belgium	98,580,996.34	84,443,242.49
5. Serb-Croat-Slovene State	32,752,055.13	27,881,037.12
6. United States of America	28,884,932.66	—
7. Rumania	6,643,280.72	6,405,403.55
8. Japan	5,604,178.29	370,781.23
9. Portugal	4,689,110.89	4,676,795.34
10. Greece	2,372,296.34	2,297,207.93
11. Poland	94,544.28	91,955.24
Totals in respect of Powers	872,932,035.96	746,275,190.49
12. Service of German External Loan 1924	69,945,946.49	72,557,419.54
13. Inter-Allied Commissions:		
(*a*) Reparation Commission	2,850,000.—	2,694,585.84
(*b*) Office for Reparation Payments	2,775,000.—	2,775,015.78
(*c*) Rhineland High Commission	7,320,112.36	6,162,711.45
(*d*) Military Commission of Control	5,100,000.—	3,907,261.69
14. Costs of Arbitral Bodies	—	37,545.27
15. Discount paid on amounts received from Deutsche Reichsbahn Gesellschaft in advance of due date	5,907,555.35	5,907,557.40
	966,830,650.16	840,317,287.46
Funds unallocated:		
(*a*) Annuity Income not available for allocation	56,399,183.11	—
(*b*) Incidental items (March 1 to May 31, 1926)		
1. Interest received	513,240.75	—
2. Difference in exchange	Cr. 11,670.39	—
	1,023,731,403.63	840,317,287.46
The foregoing total is made up as follows:		
First Annuity balance unexpended at September 1, 1925	107,013,270.89	
Second Annuity — proportion accrued to May 31, 1926	915,000,000.—	
Incidental Receipts, interest, etc.	1,718,132.74	
Total as above	1,023,731,403.63	

bit V.

available for Expenditure during the Period to May 31, 1926.

Outstanding liabilities at May 31, 1926 Gold Marks	Total payments and outstanding liabilities at May 31, 1926 Gold Marks	Powers' Balances at May 31, 1926 (per Balance Sheet)	
		Funds allocated and uncovered by payments or outstanding liabilities Gold Marks	Funds unallocated Gold Marks
27,905,399.42	431,367,560.14	30,362,444.03	—
Cr. 207,710.09	166,381,810.93	2,250.37	—
7,417,905.28	57,474,991.13	7,721,584.71	—
6,150,470.13	90,593,712.62	7,987,283.72	—
613,374.10	28,494,411.22	4,257,643.91	—
—	—	28,884,932.66	—
—	6,405,403.55	237,877.17	—
108,352.21	479,133.44	5,125,044.85	—
—	4,676,795.34	12,315.55	—
64,268.37	2,361,476.30	10,820.04	—
—	91,955.24	2,589.04	—
42,052,059.42	788,327,249.91	84,604,786.05	—
Cr. 3,893,234.65	68,664,184.89	—	1,281,761.60
—	2,694,585.84	—	155,414.16
—	2,775,015.78	—	Cr. 15.78
—	6,162,711.45	—	1,157,400.91
—	3,907,261.69	—	1,192,738.31
—	37,545.27	—	Cr. 37,545.27
—	5,907,557.40	—	Cr. 2.05
Dr. 42,052,059.42 Cr. 3,893,234.65	878,476,112.23	84,604,786.05	3,749,751.88
—	—	—	56,399,183.11
—	—	—	513,240.75
—	—	—	Cr. 11,670.39
Dr. 42,052,059.42 Cr. 3,893,234.65	878,476,112.23	84,604,786.05	60,650,505.35

Exhibit VI.

Analysis of Payments and Outstanding Liabilities, for the Period September 1, 1925 to May 31, 1926, according to Category of Expenditure.

	Total Payments Sept. 1, 1925 to May 31, 1926	Outstanding Liabilities at May 31, 1926	Total Payments and Outstanding Liabilities at May 31, 1926
	Gold Marks	Gold Marks	Gold Marks
1. Mark payments to armies of occupation			
France	23,715,477.85	—	23,715,477.85
British Empire	10,426,882.59	—	10,426,882.59
Belgium	2,185,230.27	—	2,185,230.27
	36,327,590.71	—	36,327,590.71
2. Requisitions and damages under Art. 6 of Rhineland Agreement (Suspense Account)			
France	—	5,164,000.—	5,164,000.—
British Empire	—	76,000.—	76,000.—
Belgium	—	760,000.—	760,000.—
	—	6,000,000.—	6,000,000.—
3. Furnishings in kind under Arts. 8—12 of Rhineland Agreement			
France	22,511,049.93	—	22,511,049.93
British Empire	5,034,137.21	—	5,034,137.21
Belgium	5,164,440.85	—	5,164,440.85
	32,709,627.99	—	32,709,627.99
4. Reparation Recovery Acts			
France	30,043,557.40	3,781,816.72	33,825,374.12
British Empire	150,816,001.22	Cr. 283,710.09	150,532,291.13
	180,859,558.62	3,498,106.63	184,357,665.25
5. Deliveries of coal, coke and lignite			
France	139,021,331.98	12,671,918.26	151,693,250.24
Italy	32,687,170.17	4,303,026.80	36,990,196.97
Belgium	33,109,949.80	3,777,171.35	36,887,121.15
	204,818,451.95	20,752,116.41	225,570,568.36
Totals carried forward ...	454,715,229.27	30,250,223.04	484,965,452.31

	Total Payments Sept. 1, 1925 to May 31, 1926	Outstanding Liabilities at May 31, 1926	Total Payments and Outstanding Liabilities at May 31, 1926
	Gold Marks	Gold Marks	Gold Marks
Totals brought forward ...	454,715,229.27	30,250,223.04	484,965,452.31
6. Transport of coal, coke and lignite			
France	49,296,447.55	1,774,245.76	51,070,693.31
Italy	9,915,498.77	1,046,498.85	10,961,997.62
Belgium	8,769,498.48	422,640.08	9,192,138.56
	67,981,444.80	3,243,384.69	71,224,829.49
7. Deliveries of dyestuffs and pharmaceutical products			
France	1,388,859.69	—	1,388,859.69
Italy	2,707,813.15	59,279.44	2,767,092.59
Belgium	3,699,545.66	226,383.77	3,925,929.43
Serb-Croat-Slovene State.....	93,361.10	4,338.24	97,699.34
Japan	Cr. 10,112.70	—	Cr. 10,112.70
	7,879,466.90	290,001.45	8,169,468.35
8. Deliveries of chemical fertilisers and nitrogenous products			
France	39,654,829.84	42,453.20	39,697,283.04
Belgium	2,935,197.64	—	2,935,197.64
	42,590,027.48	42,453.20	42,632,480.68
9. Deliveries of coal by-products			
France	1,718,145.28	135,450.82	1,853,596.10
Belgium	1,954,782.02	107,084.21	2,061,866.23
	3,672,927.30	242,535.03	3,915,462.33
10. Delivery of refractory earths			
France	69,638.84	4,298.85	73,937.69
11. Deliveries of agricultural products			
France	12,545,049.52	186,739.89	12,731,789.41
Poland	72,031.89	—	72,031.89
	12,617,081.41	186,739.89	12,803,821.30
Totals carried forward ...	589,525,816.—	34,259,636.15	623,785,452.15

	Total Payments Sept. 1, 1925 to May 31, 1926	Outstanding Liabilities at May 31, 1926	Total Payments and Outstanding Liabilities at May 31, 1926
	Gold Marks	Gold Marks	Gold Marks
Totals brought forward ...	589,525,816.—	34,259,636.15	623,785,452.15
12. Deliveries of timber			
France	12,040,973.40	730,482.55	12,771,455.95
Belgium	3,739,280.88	140,504.27	3,879,785.15
	15,780,254.28	870,986.82	16,651,241.10
13. Deliveries of sugar			
France	4,709,935.72	410,810.14	5,120,745.86
14. Miscellaneous deliveries			
France	59,723,489.09	3,003,183.23	62,726,672.32
Italy	4,746,603.76	2,009,100.19	6,755,703.95
Belgium	22,864,299.46	716,686.45	23,580,985.91
Serb-Croat-Slovene State	27,616,237.51	609,035.86	28,225,273.37
Rumania	6,405,403.55	—	6,405,403.55
Japan	380,893.93	108,352.21	489,246.14
Portugal	4,676,795.34	—	4,676,795.34
Greece	2,297,207.93	64,268.37	2,361,476.30
	128,710,930.57	6,510,626.31	135,221,556.88
15. Miscellaneous payments			
France	1,666,145.62	—	1,666,145.62
Belgium	21,017.43	—	21,017.43
Serb-Croat-Slovene State	171,438.51	—	171,438.51
Poland	8,411.06	—	8,411.06
	1,867,012.62	—	1,867,012.62
16. Cash transfers			
(a) Liquidation of the accounts of the Franco-Belgian Railway Regie: France	5,007,229.01	—	5,007,229.01
(b) Settlement of balances owing for deliveries made or services rendered by the German Government prior to September 1, 1924:			
France	350,000.—	—	350,000.—
British Empire	312,500.—	—	312,500.—
Poland	11,512.29	—	11,512.29
	5,681,241.30	—	5,681,241.30
Totals in respect of Powers ...	746,275,190.49	42,052,059.42	788,327,249.91

Exhibit VII.

Office for Reparation Payments.

Summary of Personnel — May 31, 1926.

Office[1]	Nationality						Total
	American	French	British	Italian	Belgian	Dutch	
The Agent General for Reparation Payments	1	—	—	—	—	—	
Assistants and Staff	4	1	—	—	—	—	6
The Commissioner of the Reichsbank	—	—	—	—	—	1	
Assistants and Staff	—	—	—	—	—	4	5
The Commissioner for the German Railways	—	1	—	—	—	—	
Assistants and Staff	—	6	—	1	1	—	9
The Commissioner of Controlled Revenues	—	—	1	—	—	—	
Assistants and Staff	—	1	2	1	1	—	6
The Trustee for the German Railway Bonds	—	—	—	—	1	—	1
The Trustee for the German Industrial Debentures	—	—	—	1	—	—	
Director of Office and Staff	—	1	—	4	—	—	6
The Transfer Committee	2	1	1	1	1	—	
Economic Advisers	1	1	—	1	1	—	
Other Staff	1	7	—	1	1	—	19[3]
Legal Adviser and Paris Representative[3]	1	—	—	—	—	—	
Secretary and Staff	3	1	—	—	—	—	5
Administrative Services:							
Secretary and Staff	—	2	2	—	—	—	4
Chief Accountant and Staff	2	6	9	4	2	—	23
Translators	—	3	5	—	—	—	8
Private Secretaries, Registry and Filing Staff, Clerks, Stenographers, and Typists	2	11	27	—	1	—	41
Total Personnel[2]	16	42	47	14	9	5	133[2]
Of which the salaries and the costs are chargeable against:							
The Annuity 119							
The Reichsbank 5							
The German Railways 9							133

[1] Berlin Office address: 33 Luisenstraße.

[2] Total adjusted to avoid duplication within groups.

[3] Paris Office address: 18, rue de Tilsitt.

Note. — The foregoing is exclusive of German minor staff employed for upkeep of building, messenger service, etc.

Exhibit VIII.

German External Loan, 1924.

Condition as of April 15, 1926 (First Half of Second Loan Year).

Tranche	Nominal value of bonds outstanding as of October 15, 1925	Nominal value of bonds redeemed since October 15, 1925	Nominal value of bonds outstanding as of April 15, 1926	Cost of bonds redeemed by purchase (exclusive of accrued interest)	Cost that would have been incurred at the price fixed for redemption	Capital saving through redemption by purchase[2]
American	$ 105,174,200	$ 2,267,200	$ 102,907,000	$ 2,314,524.40	$ 2,383,394.—	$ 68,869.60
British	£ 11,807,500	£ 45,000	£ 11,762,500	£ 45,011.18. 3	£ 45,056. 5.—	£ 44. 6. 9
Belgian	£ 1,475,000	£ 8,600	£ 1,466,400	£ 8,476. 8. 6	£ 8,610.15.—	£ 134. 6. 6
Dutch	£ 2,459,600	£ 10,600	£ 2,449,000	£ 10,601. 1. 6	£ 10,613. 5.—	£ 12. 3. 6
French	£ 2,950,500	£ 13,700	£ 2,936,800	£ 13,516. 1. 2	£ 13,717. 2. 6	£ 201. 1. 4
Italian	Lire 98,360,000	Lire 855,500	Lire 97,504,500	Lire 795,606.45	Lire 856,569.38	Lire 60,962.93
Swedish	S. Kr. 24,802,000	—	S.Kr. 24,802,000	—	—	—
Swiss	£ 2,321,700	£ 9,600	£ 2,312,100	£ 9,597.—.11	£ 9,612.—.—	£ 14.19. 1
Swiss	S. Frs. 14,761,000	—	S.Frs. 14,761,000	—	—	—
German	£ [1]314,300	£ 2,100	£ 312,200	£ 2,095. 7. 3	£ 2,100.—.—	£ 4.12. 9

[1] After taking into account a reduction of the German Tranche by £ 40 000, nominal value, effected by way of adjustment of accounts in connection with the determination of the final expenses of issue, negotiation and delivery for all tranches of the Loan.

[2] The gold mark equivalent of the various currencies representing this capital saving amounts to 308,185.57 gold marks, converted as of April 15, 1926.

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